



3 1761 11712264 8













Digitized by the Internet Archive  
in 2023 with funding from  
University of Toronto





Gov. Doc.  
Can  
Com  
D

Canada. Dominion-Provincial Relations,  
"Royal Commission on, 1937

ROYAL COMMISSION ON DOMINION-PROVINCIAL RELATIONS

REPORT OF HEARINGS

[Ontario]

Vol. I, Pt. 1-2

APR 25 1938 - Apr. 26, 1938

383363  
1. 8. 40

REPORTERS:

George Thompson  
John Robertson  
David Torry







TORONTO, ONTARIO, APRIL 25, 1938.

ADDRESS OF WELCOME

	<u>Page</u>
HON. GORDON D. CONANT, K.C., Attorney-General, Province of Ontario	6629

REPLY

COMMISSIONER SIROIS	6630
---------------------	------

REPRESENTATIONS BY CITIZENS RESEARCH INSTITUTE

DR. H. BRITTAIN, Secretary,	6632-6697
-----------------------------	-----------

REPRESENTATIONS BY TORONTO BOARD OF TRADE

K. R. MARSHALL, President	6698-6699
F. D. TOLCHARD, General Manager,	6699-6752

-----





TORONTO, ONTARIO, APRIL 25, 1938.

LIST OF EXHIBITS

	<u>Page</u>
Exhibit No. 267: Brief of Citizens' Research Institute	6698
Exhibit No. 267A: Summary of Brief of Citizens' Research Institute	6698
Exhibit No. 268: Brief of Toronto Board of Trade	6747

----





TORONTO, ONTARIO, APRIL 25, 1938

TOPICAL INDEX

	<u>Page</u>
<u>CONANT, HON. GORDON D., K.C.,</u> (Attorney-General of Ontario)	
Address of Welcome	6629
COMMISSIONER SIROIS: Reply to address of welcome	6630
<u>BRITTAIN, DR. H.,</u> (Secretary, the Citizens' Research Institute of Canada)	
Activities of the Citizens' Research Institute of Canada	6633
Divergent views on government in Canada	6634
Multiplicity of gov- erning bodies in Canada with power to spend public revenues	6634
Public expenditure in Canada	6636
THE CHAIRMAN: Increase in Dominion and provincial expenditures	6637
Trend of Dominion per capita expenditures from 1904 to 1935	6638
Increase in national debt between 1904 and 1935	6638
THE CHAIRMAN: Re increase in public expenditure and public debt during period 1904-1935	6639
Provincial current expenditures and debt	6640
THE CHAIRMAN: Provincial debt in 1904	6640
Increase in provin- cial debt during period 1921-1935	6640
No attempt made to red- uce provincial debt in expanding times in order to provide for depression	6641



BRITTAIN, DR. H. (CONT'D.)

Municipal debt	6641
Increase in population of cities since 1921	6642
Increase in debenture debt for municipalities during period 1922-1935	6642
Increased net expend- itures by all govern- ments in Canada during period 1904-1935	6642
THE CHAIRMAN: Re school expend- itures	6643
Total municipal debt	6643
Suggested inquiry into causes of reduction in municipal debt during 1932-1935	6644
COMMISSIONER ANGUS: Special category for type of taxation transferring income	6650
THE CHAIRMAN: Re percentages of total national income absorbed by public expenditure in 1922 and 1935	6651 6652
COMMISSIONER DAFOE: Sources of national revenue other than taxation	6651
COMMISSIONER MACKAY: Stumpage tax	6652
Changes in sources of public revenue since 1904	6652
Taxation of real estate	6652
THE CHAIRMAN: Burden of taxation on real estate	6653
Relation of public expenditures to revenue in 1904 and 1935	6653
COMMISSIONER DAFOE: Capital expenditure	6653
Necessity of "team play" between three levels of government in Canada	6654





	<u>Page.</u>
<u>BRITTAIN, DR. H. (CONT'D.)</u>	
Cost of highways and operating transportation deficits	6655
COMMISSIONER ANGUS: Relief work on highways	6656
Welfare expenditures	6657
Cost of public education	6658
That budgets to be effective must be more finely itemized than at present	6659
Desirability of a long term capital budget	6660
COMMISSIONER MACKAY: Governments in Canada following practice of long term budget	6661
Municipalities in England and U.S. compelled to form long term budgets	6661
COMMISSIONER DAFOE: Coordinated budgets	6661
Personnel administration	6663
Civil Service Commission of Canada	6664
Municipal expenditures in salaries, wages, etc.	6665
Questions re government- al personnel	6666
The question of equal pay for equal work in all branches of the public service	6666 6667
Pension system	6667
That personnel establish- ment should be continuous at all levels of govern- ment	6668
Cooperation between governing bodies in coll- ection of income taxes, etc	6668
Succession duties not suitable as basis for current budgeting	6668





BRITAIN, DR. H. (CONT'D.)

COMMISSIONER ANGUS: Estimated death duties	6669
Real estate taxation in relation to total public revenue of Canada	6669
Burden of taxation on real estate	6670
Local and provincial sales taxes	6670A
Unscientific and ineq- uitable assessment of real estate a contrib- utory cause of accumu- lated tax arrears	6670A
Assessment Act, Section 40, Sub-section 2	6670A 6671
Exemptions from taxation	6672
COMMISSIONER ANGUS: Justification for tax exemption of certain public institutions	6673
COMMISSIONER DAFOE: Distinctions to be made in tax exemption of various government properties	6674
COMMISSIONER MACKAY: English principle of taxing occupier of land	6675
Adequacy of present system of taxation in Canada	6675
Conclusions	6676- 6680
Desirability of bal- ancing public revenues and public expenditures	6676
Use of taxes and other sources of revenue in prosperous times for debt retirement	6676
Necessity of nation- wide policy of unemploy- ment relief	6676
Necessity of adopting positive policy re transportation deficits	6676



BRITTAIN, DR. H. (CONT'D.)

THE CHAIRMAN:  
Re transportation  
deficits

6677

Establishment of  
adequate budgetary and  
accounting control in  
all jurisdictions

6677

Realignment of costs of  
social services within  
public revenues

6677

Redistribution of  
educational costs

6677

THE CHAIRMAN:  
Regarding redistrib-  
ution of educational  
costs

6678

COMMISSIONER DAFOE:  
Re suggestions made  
in western Canada  
with respect to re-  
distribution of ed-  
ucational costs

6678

Costs of education  
provided by tax on  
real estate

6679

THE CHAIRMAN:  
Benefits derived by  
real estate from  
schools

6679

Establishment of reserves  
of governmental credit in  
advance of depressions

6679

Administration of public  
domain so as to produce  
greatest possible finan-  
cial return

6679

That public securities  
should be payable in  
Canada only

6679

Re control of amount  
of taxation

6679

Desirability of a  
national viewpoint

6680

COMMISSIONER ANGUS:  
Re administration of  
public domain

6680

Adjustment of govern-  
mental machinery to the  
needs of taxpayers

6680

THE CHAIRMAN:  
Re cooperation in  
government services

6682





BRITTAIN, DR. H. (CONT'D.)

Appointments to municipal services	6682
THE CHAIRMAN: Reduction in number of governmental bodies	6684
School districts in Ontario	6684
COMMISSIONER DAFOE: Enlargement of municipalities	6684
Objections to the county system	6685
COMMISSIONER DAFOE: Resistance of Manitoba school districts to being merged	6685
Special school districts of midwestern states of U.S.	6686
COMMISSIONER MACKAY: Independently appointed school boards	6686
Cooperation between school authorities and municipal authorities	6687
SE. LAURENT, LOUIS S.: Examination of Dr. Brittain	6688
Number of persons in Canada engaged in govern- ment service	6688
Re table showing total Dominion debenture guaranteed and floating debt, less sinking fund	6689
THE CHAIRMAN: Interest on Dominion advances to Canadian National Railway	6691
COMMISSIONER ANGUS: Re transfer of certain taxes to another authority during prosperity	6692
COMMISSIONER DAFOE: Pressure upon govern- ments in times of prosperity to make large expenditures	6693
Decrease in net expend- itures per capita for education during 1922- 1935	6694





BRITTAIN, DR. H. (CONT'D.)

Re Assessment Act,  
Section 40, Sub-  
section 2

6695

COMMISSIONER MACKAY:  
Debt contracted for  
capital assets which  
are revenue producing

6696

THE CHAIRMAN:  
Figures showing public  
utility burden in  
municipalities

6696

Waterworks as a public  
utility

6697

COMMISSIONER DAFOE:  
Figures concerning  
public utilities

6697

MARSHALL, COLONEL K., (Board of Trade of the  
City of Toronto)

Brief submitted

6698

TOLCHARD, F.D., ESQ. (General Manager, Toronto  
Board of Trade)

Importance of public  
expenditures, revenues  
and debt to private  
enterprise

6699

Increase of Toronto  
per capita expenditures  
during period 1922-1935

6700

No increase in net per  
capita revenue of  
Toronto since 1922;  
increase in taxation

6700

THE CHAIRMAN:  
Deficiency between  
income and expend-  
iture in Toronto  
in 1935-36

6701

BRITTAIN, DR. H. (Citizens' Research Institute  
of Canada)

Per capita debt of  
Ontario, the Dominion  
and Toronto added to  
show per capita burden  
of public debt on  
Toronto business and  
industry

6702

THE CHAIRMAN:  
Re per capita debt  
of Toronto

6702



TOLCHARD, F.D., ESQ. (CONTINUING)

Municipal difficulties in increasing revenues and controlling expend- itures	6703
Concrete steps possible in reduction of expend- itures	6704
Costs of personnel in municipal, provincial and Dominion governments	6705
Establishment of minimum requirements of training, etc., for important municipal offices; merit system	6706
Desirability of detailed, continuous inquiries into departmental organ- ization, personnel admin- istration, etc., at all government levels	6707
THE CHAIRMAN: General efficiency of municipal administrat- ion	6708
Provincial Department of Municipal Administration	6708
Grants-in-aid	6709
Public accounts	6711
Reduction in number and coordination of govern- ing bodies	6712
THE CHAIRMAN: Re creation of en- larged areas of local government	6713
Railway deficits	6713
National business in Canada	6714
Duplication and over- lapping of taxes	6715
THE CHAIRMAN: Aggregate tax imposed on a company operating throughout Canada	6715B
Parallel taxation in sales and income tax fields	6716
Income tax	6717
Re summary of provincial income tax receipts in 1935	6719





	<u>Page.</u>
<u>TOLCHARD, F.D., ESQ. (CONT'D.)</u>	
Retroactive and double taxation	6720
THE CHAIRMAN: Re retroactive taxation	6721
Sales Tax	6721
Municipal Business Taxes	6721
Arbitrary valuations and dumping duty	6721
THE CHAIRMAN: Re arbitrary valuat- ions and dumping duty	6721
Lack of finality in taxes and assessments	6722
THE CHAIRMAN: Re limitation of right of taxing authorities to re-open assessments to cases in which fraud- ulent intent clearly evident	6723
Multiplicity of corporation tax returns	6724
THE CHAIRMAN: Firms making three hundred tax returns	6725
Interprovincial busin- ess barriers	6726
Hardship imposed upon estates by multiple succession duties	6729
THE CHAIRMAN: Practical difficult- ies in connection with succession duties	6730
Social and welfare services	6731
Municipal share of taxes on Ontario mines	6734
THE CHAIRMAN: Tax income in relat- ion to expenditures in Northern Ontario towns	6736
Re exemption from taxation of mining properties in Northern Ontario	6736



TOLCHARD, F.D., ESQ. (CONT'D.)

Summary of observations and recommendations	6737
--	------

## COMMISSIONER DAFOE:

Definite formal organization to bring about coordination between all levels of government	6737
---	------

Grants-in-aid	6739 6740
---------------	--------------

## COMMISSIONER MACKAY:

As to whether the Dominion can deal with province on same terms as the province with a municipality in the matter of grants-in-aid	6741
--	------

Standardization of public accounts	6741
------------------------------------	------

Governmental simplifications	6742
------------------------------	------

Railway problem	6742
-----------------	------

National Business Problems	6742
----------------------------	------

Succession Duties	6743
-------------------	------

Social and Welfare Services	6743
-----------------------------	------

## COMMISSIONER DAFOE:

Nature of proposed Dominion assistance for unemployment relief and social services	6744
--	------

Municipal Share of Taxes on Mines	6745
-----------------------------------	------

BRITTAIN, DR. H. (Citizens' Research Institute of Canada)

ST. LAURENT, LOUIS S.: Examination of Dr. Brittain	6747
--	------

Distinction between expenditures for services general and those for contractual services	6747
--	------

Introduction into public accounting of principles generally recognized for good accounting in business	6747
--	------

Changes in monetary policy and tariff policy advocated in other provinces	6749
---	------

20

1871

1871

1871

1871

1871

1871

1871

1871

1871

1871

1871

1871

1871

1871

1871

1871

1871

1871

1871

1871

1871



TOLCHARD, F.D., ESQ., (CONTINUING)

Re municipal share  
of taxation on mining  
incomes

6750



ROYAL COMMISSION ON DOMINION-PROVINCIAL RELATIONS

---

TORONTO, ONTARIO, APRIL 25, 1938

---

The Royal Commission appointed to re-examine the economic and financial basis of Confederation and the distribution of legislative powers in the light of the economic and social developments of the last seventy years, met at the Parliament Buildings, Toronto, Ontario, on Monday, April 25, 1938, at 10.30 a.m.

PRESENT:

HON. CHIEF JUSTICE NEWTON W. ROWELL.....CHAIRMAN

DR. JOSEPH SIROIS	)	
JOHN W. DAFOE, Esq.	)	
DR. ROBERT ALEXANDER MACKAY	)	
PROFESSOR HENRY FORBES ANGUS	)	
	)	Commissioners

Commission Counsel:

Louis S. St.Laurent, K.C.

Secretariat:

Alex. Skelton, Esq.	Secretary
Adjutor Savard, Esq.	Secrétaire Français
R. M. Fowler, Esq.	Legal Secretary
Wilfrid Eggleston, Esq.	Assistant to the Secretary

FOR THE GOVERNMENT OF ONTARIO:

Hon. G. D. Conant, K.C.	Attorney-General
-------------------------	------------------

FOR THE CITIZENS' RESEARCH INSTITUTE

OF CANADA:

Dr. H. Brittain	Secretary
-----------------	-----------

FOR THE BOARD OF TRADE

OF THE CITY OF TORONTO:

Mr. Marshall	Representative
Mr. Tolchard	General Manager

---





Parliament Buildings,  
Toronto, Ontario,  
April 25, 1938

MORNING SESSION

At 10.30 A.M. the Commission met.

HON. MR. CONANT, Attorney-General of Ontario:

Mr. Chairman, and members of the Commission: Due to the unavoidable absence of our Prime Minister, I am acting on his behalf. May I take this opportunity of welcoming this commission to the province of Ontario. Although one of the last in which sittings are being held, Ontario is by no means the least of the provinces which go to make up the Dominion of Canada. On the contrary, from the standpoint of population and all its contribution to the Federal exchequer or the contribution of its citizens, it is the largest of the provinces, so that the status of this Commission and its deliberations are matters of considerable importance to the province of Ontario.

Confederation, of course, was brought about by conferences and by agreement. Likewise, and in the final analysis, problems of the Dominion and the provinces can probably be solved and the welfare of the country assured only by understanding and agreement. It is rather a departure from our practice and experience, preceding and since Confederation, in the affairs, particularly in the relationship between the Dominion and the provinces, to have that relationship examined by a Commission such as this. If, as a result of its deliberations this Commission can contribute anything towards a better understanding and a more harmonious solution of our problems, it certainly will not have laboured in vain.

We are offering you gentlemen the hospitality of this legislative chamber, sometimes the scene of more beligerent activities than will perhaps characterize these deliberations



We offer you all the facilities at our command and we hope you will find these arrangements convenient thereby facilitating your work. It is our understanding that during this week submissions will be made to you by the various organizations and that a week hence the province of Ontario may commence its submission. The preparation of the brief has been directed towards this end. The prime minister will be present at that time to lead in the submissions to be made by this province. Gentlemen, we welcome you as a commission and as individuals.

THE CHAIRMAN: Mr. Conant, as this is my native province, I shall ask Dr. Sirois, from the province of Quebec, to reply to your words of welcome.

DR. SIROIS: Mr. Attorney-General, our learned and highly respected Chairman asked me to reply on his behalf and on behalf of our Colleagues to your address of welcome. For that agreeable task, he has chosen the French Canadian member of the Commission. He has probably heard that, familiar with voices from Quebec, your government is even quite friendly to some of them. It is therefore with pleasure that speaking in the name of all my colleagues and myself, I express our sincere and grateful appreciation of your cordial words delivered in your name, in the name of your Premier, Hon. Mr. Hepburn, your Government and of the Province of Ontario.

This Commission has been appointed under very trying conditions. The framers of our Constitution had shown wonderful foresight. I must say that, to date, our investigation has proved the magnitude of their task, <sup>a</sup>task met with a wisdom and care which we can never sufficiently admire and praise.

However, the depression of the last seven or eight years has brought to light certain difficulties in Govern-



ment finances (both federal and provincial) which have led to the creation of the present Commission.

What is the sphere, what are the limitations of our authority? Without limiting the general scope of our inquiry, the Order in Council appointing us as Royal Commissioners, instructed us in particular:

- (a) - to examine the constitutional allocation of revenue sources and governmental burdens to the Dominion and provincial governments, the past results of such allocation and its suitability to present conditions and the conditions that are likely to prevail in the future;
- (b) to investigate the character and amount of taxes collected from the people of Canada;
- (c) to examine public expenditures and public debts in general;
- (d) to investigate Dominion subsidies and grants to provincial governments.

We are also instructed to express what in our opinion, subject to the retention of the distribution of legislative powers essential to a proper carrying out of the federal system in harmony with national needs and the promotion of national utility, will best effect a balanced relationship between the financial powers and the obligations and functions of each governing body, and conduce to a more efficient, independent and economical discharge of governmental responsibilities in Canada.

Briefly, our main function is to re-examine the economic and financial bases of our federation, and of the distribution of legislative powers in the light of the economic and social development of the last seventy years.





I am sure everyone will agree that this is as big and difficult a task as could be committed to any body of men to perform.

In such a country as Canada, extending from the Atlantic to the Pacific, from the American border to the Arctic Ocean, with provinces on the shores of two oceans and others land-locked, and two at the head or along large waterways, with industrial, deep water fishing and agricultural provinces, the interests are of necessity different and even seem opposed to each other.

It will be our task to find, if possible, the necessary solutions, and suggest means to conciliate these interests so as to allow the federal and provincial authorities to function smoothly and harmoniously within the properly defined limits of their respective jurisdiction.

It is practically impossible for us even to attempt such a task if we do not receive every possible help from the different governments, associations, corporations, even churches. We welcome any assistance we can secure. We may fail, but it will certainly not be for lack of good will and devotion to duty on our part.

Once again, Mr. Attorney-General, I beg you to accept our most sincere thanks for your kind words and promise of cooperation, thanks which we extend to the twenty and more associations which have so willingly sent us briefs and statements.

THE CHAIRMAN: The first brief to be heard this morning is the submission of the Citizens' Research Institute of Canada. It will be presented by Dr. Brittain.

#### SUBMISSION BY

CITIZENS' RESEARCH INSTITUTE OF CANADA

DR. H. BRITTAIN, Secretary, was called.

DR. BRITTAIN: Mr. Chairman and Commissioners, I



presume you have copies of the brief.

THE CHAIRMAN: Yes, Dr. Brittain; would you just briefly outline the work of your institute to the members of the Commission in order that we may have before us and that the record may contain the character of the work of your organization.

DR. BRITTAIN: The Citizen's Research Institute of Canada was founded in 1919 for the purpose of doing what could be done to improve the Government of Canada, not only the Federal and provincial government, but the municipal government as well. This was to be done through the supplying of information to citizens. It was felt that informed citizenship was the foundation of good government. The five or six citizens who took the lead in this movement were seized with the importance of the task. Since that time the staff of the institute has prepared and published ten reports every year on some phase of governmental taxation and expenditure for public statistics for the use of banks, investors, and investing houses, having to do with the financial statistics of the three levels of government. I think this statement covers our activities, briefly.

I have prepared a summary from which I wish to speak this morning and if you would like to have copies I can leave them with you. Instead of discussing this rather voluminous brief, I thought it better to touch upon the points which I deem of some importance. If you would like it I will give Mr. Fowler copies of this summary for the Commission.

THE CHAIRMAN: We would be very glad to have those copies. It is a very important brief, Dr. Brittain, dealing with some of the most difficult problems with which we have to deal. It is the desire of the Commission that you take





sufficient time to present the matter as fully as you believe necessary.

DR. BRITTAIN: I thank you very much, Mr. Chairman. We have spent a good deal of time in the preparation of this brief, as you know. It is based not on material gathered together during the last few months, but it is based on material which has been in the course of preparation for nineteen years. As a result of this it has a forward and backward look. It is probably more important on this account. We hear, in Canada, people expressing the opinion that there is too much government in Canada. I have never heard anyone dispute that fact, but I have never found two people who agreed exactly as to what it meant.

THE CHAIRMAN: Or as to how it may be remedied.

DR. BRITTAIN: Yes, some of them think there are too many governments and they would unite two or three of the provinces. Some, however, think there are too many persons employed in government and I have heard statements that as high as ten per cent of the people in Canada are employed in government. This, of course, is not correct. There are others who believe that the Government has undertaken too many services. This, of course, depends upon a person's philosophy as to what a government should undertake. I am not saying anything at all about the third point, as to what governments should undertake. I have my personal opinion on this point, but it is not a subject given to factual discussion; it is largely a matter of a person's background.

Most people agree there are too many governing bodies in Canada with the power to spend the public revenues. There are, one national parliament, nine provincial parliaments, three thousand nine hundred and eighty-one municipal councils,



twenty three thousand two hundred and seventy-eight local school boards. This makes a total of twenty-seven thousand two hundred and sixty-nine public authorities with the power to incur public expenditures at the expense of the taxpayers of Canada. All citizens of Canada who pay their bills are directly or indirectly taxpayers. I suppose there would be between one hundred thousand and one hundred and ten or twenty-five thousand people in Canada who are members of these parliaments, councils, boards and commissions, that is, without including the ad hoc commissions which have been appointed very freely by the municipalities in Canada. I am speaking of the permanent ad hoc administrative commissions such as the hydro-electric commissions in the cities of Ontario and commissions which have to deal with telephones in some of the other provinces. This is a large number of people and is a population about half way between that of the city of London and the city of Hamilton. It would seem to me that if Democracy consists in having as many people as possible assist in the process of government, this is certainly a democratic country.

It seems to me that the chief hope of simplification in this field does not lie so much in the provincial field as in the municipal, the field of local government. You will notice there are 23,278 local school boards in 3,981 municipalities. It seems to me that this is where a saving could be effected, not because these men are paid high salaries, that is a very small part of the expenditure, but through such a division in organization it is almost impossible to get the necessary coordination of staffs. The savings will be in administration, it will not be a saving in staff. Frequently we are told that it is impossible to put two departments together because the head of each department has too much work to do now. If



you take that argument logically, a lot of the departments which are now in existence would be divided. I remember one man telling me there ought to be a hundred wards in the city of Toronto instead the number now existing. It might also be said that there ought to be a good many more provinces, and I see there is a move on foot to establish another province at the present time. We might have, for example, if the municipalities were combined or the school boards were combined, a great many more full-time officials. Instead of part time assessors, we could have full-time assessors; instead of part-time treasurers, we could have a full time official. Instead of part-time auditors we might have one covering an area of eight or nine municipalities. It would then be possible to afford well-trained officials instead of having to take officials who are trained on the job.

The Dominion per capita current expenditure declined between 1920 and 1928 and did not reach the 1921 level until 1931. The authorities might have maintained revenues, controlled ordinary expenditures, thus greatly reducing the debt and being in a better position to meet the depression. The debt per capita declined from 1922 to 1929 and did not reach the 1922 figure until 1932. This means that the Dominion did a good job to the extent it reduced the burden of debt during the time immediately preceding the depression. If, however, the Dominion and the provinces, instead of reducing taxation -- sometimes it was justifiable, but if taxation had been kept up and the greater surplus used for the reduction of debt, there would have been a larger pool of credit which could have been used for capital works during the depression. Capital works, not of relief nature, but works which had accumulated and were necessary. All who have seen relief workers know what I mean when I say





that works, generally, having the relief tag are much more expensive than works which do not have this tag.

THE CHAIRMAN: At some point you come to the growth of public expenditure, public debt, federal; I believe that is in your brief?

DR. BRITTAIN: You will find a statistical analysis of that in the last few pages.

THE CHAIRMAN: I do not wish to divert you from your present line, Dr. Brittain, but I notice the next item is provincial current expenditure. Are you passing from the public expenditure of the Dominion, now?

DR. BRITTAIN: I am referring here simply to the public expenditure of the Dominion of Canada.

THE CHAIRMAN: Are you coming back to that question?

DR. BRITTAIN: Yes, I will come back frequently to all of the debts.

THE CHAIRMAN: Very well, then, thank you.

DR. BRITTAIN: The provincial per capita current expenditure increased annually until 1932, not accompanied by a reduction in debt and went up in the next four years. It has gone up steadily.

THE CHAIRMAN: Just for the purpose of our record, unless you are coming back to the figures again, will you tell us how much the increase has been in both the Dominion and the provinces?

DR. BRITTAIN: In the chart at the end, you will find in Chart A at the back of the brief a combination of all of the facts with regard to expenditure, revenue and debt. On page 9 you will find a table showing the Dominion current expenditures. I will present it now, in the table, if you like or I shall present each one separately as we come to it.

THE CHAIRMAN: I think it would be interesting and



illuminating and it makes the official record more intelligible if you will give the figures as you are dealing with them. You could give the individual units as you come to them.

DR. BRITTAIN: You mean the Dominion current expenditures?

THE CHAIRMAN: The Dominion current expenditures, showing the increase, then the provincial current expenditures as well as the municipal.

DR. BRITTAIN: The Dominion current expenditures you will find on page 9. The Dominion current expenditures rose from \$54,700,000 in 1904 to \$526,625,193. The per capita expenditure rose from \$9.39 in 1904 to \$48.16 in 1935. The per capita, modified by the cost of living figures went up from \$14.88 in 1913, which was the first year in which the cost of living figures were given, to \$37.92 in 1935. You will notice that in 1922, the onset of the depression, there was a considerable reduction of per capita expenditures over 1921. In 1921 the per capita expenditure was \$46.21 and it went down steadily to \$43.01 in 1922, then to \$40.15 and it continued to go down until 1927 when it reached \$36.00. In 1928 there is a slight increase, and in 1929, the first year of the depression, the per capita current expenditure was \$38.46. In the years between 1927 and 1931 there was a continuous reduction in the per capita expenditure.

Now, with regard to the debt, which you will find on page 11. The debt rose from \$191,108,761 in 1904 to \$4,490,144,550 in 1935. During this time the population rose from 5,827,000 in 1904 to 10,935,000 in 1935. While the population was doubling the debenture debt went up from \$191,108,761 to \$4,490,144,550. During this time the per capita debt rose from \$32.80 to \$410.62.





You will notice that in 1922, the per capita debt was \$326.97, and it was reduced continuously until 1929, which was the lowest point, when the per capita debt was \$305.62. In 1930, it rose to \$320.78 and it continued to rise until 1935 when it had reached \$410.62.

THE CHAIRMAN: The per capita went up from \$32.80 in 1904, to \$410.62 in 1935. These figures bring out very strikingly the enormous increase in public expenditure and in public debt during that period. It is, perhaps, not to be wondered at that people are now commencing to realize the burden of debt which this country is attempting to carry.

DR. BRITTAIN: The thesis I am trying to show is that the credit pool, as it were, should be increased during good times in order that it may be drawn upon in bad times. To a certain extent, the Dominion did do this. However, the Dominion did not do this to as great an extent as would have been possible, if the revenues had not been cut. If the level had been maintained, it would have been more possible to decrease the debt. For example, if a province has an amusement tax, it might be felt that the province did not need the amusement tax. To my mind, though, it is very doubtful whether it is always advisable to reduce such a tax. It might be better if, for example, it were passed on to the municipality; if it were not kept by the province, but went to aid the municipalities in reducing their debts and pay capital expenditures out of current revenues. I think it is unwise for governments to take it for granted that good times are going to continue indefinitely. It is just as well to have a little bit of Scotch ancestry showing and hold on to revenues a little longer than the government has been doing. One can hardly fail to notice that a good many of the tax reductions occur shortly before elections. It may not



be necessary to reduce those taxes for financial reasons, but it may be necessary for political reasons. I think it will be necessary for us to forget about some of the political reasons if we are to going to properly govern the finances of the country.

We now come to provincial current expenditures, which you will find on page fourteen. In this case I did not feel it necessary to go into the details as to how the provinces vary, but rather to give the general trend of the provinces. Current expenditure went up from 1904 when it was \$16,360,000.00, to \$233,597,000.00, in 1935. Between 1921, and 1935 it went up from \$99,894,000.00, to \$232,597,000.00. If you look at the per capita current expenditure column you will see that there was no drop as there was in the case of the Dominion .

THE CHAIRMAN: I see the per capita current expenditure rose from \$2.83 in 1904 to \$21.30 in 1935.

DR. BRITTAIN: Yes, and with regard to debt, you will find the table on page fifteen. This table shows the total debt of the province, less sinking funds. In 1921, the total debt was \$703,227,350.00, and in 1935, it had risen to \$1,734,240,198.00, almost a billion dollars had been added to the provincial debt during that time.

THE CHAIRMAN: You have not got the provincial debt as of 1904, have you? I think it would be interesting to have the figures corresponding with the Dominion total.

DR. BRITTAIN: No, we could not get the figures for 1904, we could only get the figures for the debt of 1921. We could get an approximation, but we did not feel it was good enough. As a matter of fact, as far as we can find, the same thing was in evidence, but we were not sufficiently sure of the figures to use them.

THE CHAIRMAN: The debt rose from \$703,000,000.00, in 1921 to \$1,734,000,000.00, in 1935.



DR. BRITTAIN: That is the increase in the total debt and in the per capita debt it almost doubled. In 1921, the per capita debt was \$80.02, and in 1935, it was \$158.71. This table shows that there was no attempt at reduction--there might have been an attempt, you cannot say there was no attempt, but there was no successful attempt to reduce the debt during expanding times in order to have a reserve of credit for use in times of depression.

THE CHAIRMAN: You are speaking of the provinces as a whole. It might have been that some of them did it. This is a general analysis and only a detailed analysis would determine this point.

DR. BRITTAIN: We have an analysis at the office, but I did not bring it with me. I think it might be said that this is true of all the provinces with the exception of one or two.

Municipal debt is very difficult, as you know. It has only been since about 1920 that there has been debt control exercised over the municipalities. While there is a lack of uniformity in the country as between the provinces, there is a greater lack of uniformity in the provinces as between the municipalities. It is very difficult to get figures upon which reliance can be placed.

THE CHAIRMAN: You start here with the year 1904, I see, in the municipal debt table.

DR. BRITTAIN: The 1904 figure and the 1913 figure are fairly comparable, but not nearly as comparable as the later figures. An examination of the federal and provincial figures indicated the key years, and for this reason the number of years to be selected for this table was reduced to a minimum. You will notice that the gross expenditure, after subtracting the subventions and grants, for the year 1904 was \$36,867,406.00. The per capita debt





for the year 1913 is given as \$14.90 and in 1935 the net per capita had increased to \$25.72. This is not to be wondered at, because since 1921 the urban population has increased very largely. The larger a city grows the tendency is for the per capita to grow. One would imagine that as a city grew larger the overhead would be more evenly distributed and the per capit would be cut down. Unfortunately, psychology intervenes and when a city grows it begins to get big ideas. This is true both in the United States and Canada; the larger a city grows, the larger the per capita becomes. The total debenture debt for municipalities in 1922, was \$839,206,244.00, and in 1935, it had risen to \$1,168,932,846.00. The per capita net total debenture debt of municipalities has risen from \$101.13 in 1922, to \$116.36 in 1935. Apparently the municipalities have either been more careful or have found it harder to increase expenditures than the province or the Dominion. I will come to that in the summary later.

The next item is the expenditure and current accounts of the government, You will find these on table eight on page nineteen. You will notice, according to this table that the net expenditure of all governments went up from \$103,501,909.00, in 1904 to \$1,070,969,241.00, in 1935, that is an increase of almost ten times. The per capita net expenditure of all governments, based upon the total population of the Dominion, went up from \$17.76, in 1904 to \$97.93, in 1935. The per capita net expenditure of all governments, modified by the cost of living rose from \$34.12 in 1913, to \$77.11 in 1935. At the beginning of this period in 1904, almost 53 per cent of the total public expenditures were federal expenditures. In 1935, 49.12 per cent were federal expenditures. There has not been very much change, but it actually went down to as low as 43.63 per cent in 1913. The provincial expendi-



tures, however, are different. In 1904, provincial expenditures were 11.50 of the total and in 1935, they were 20.14 per cent of the total. Municipal expenditure was 35.62 per cent in 1904 and 30.74 per cent in 1935. The municipalities, in spite of the increase in population, declined as compared with the other levels of government. The provinces increased and the Dominion per centage went up slightly. I think, personally, that that is a very important table, showing the change in the relationship between the three levels of government.

THE CHAIRMAN: In dealing with those figures, are you putting the municipalities as including both counties and townships.

DR. BRITTAIN: Yes, because in Nova Scotia, the counties are called municipalities. In Ontario the counties are listed among the municipalities, so we have always included them.

THE CHAIRMAN: Would these expenditures include school expenditures?

DR. BRITTAIN: Surely, we have included school expenditures as being local expenditures paid out of local revenue.

Unless you have some other question, Mr. Chairman, I will continue with the summary.

The provincial per capita current expenditures increased annually until 1932, not accompanied by a reduction in debt, and went up in the next four years.

THE CHAIRMAN: You have given us the total expenditure, but you have not given us the total debt.

DR. BRITTAIN: On page twenty-one you will find the debenture debt. 1922 was the earliest year for which we could secure figures owing to the difficulty in getting municipal figures. In 1922, the total debt amounted to





\$4,669,959,043.00, and in 1935 it amounted to \$7,393,317,594. The federal percentage of this went down from 65.5 per cent in 1922, to 60.7 per cent in 1935. The per capita debt is given as \$523.60 in 1922 and \$676.12 in 1935. The provincial per cent of the total went from 16.5 per cent in 1922 to 23.5 per cent in 1935. The municipal per cent of the total is given as 18.0 per cent in 1922, and 15.8 per cent in 1935. The same tendency with regard to debt may be seen in this table.

The provincial per capita current expenditure increased annually until 1932. The peak of the per capita municipal expenditure is in 1930. There was a decline in 1932, 1933, and 1934, with a slight increase in 1935. There was a decrease in the per capita net debenture debt in 1932, 1933, 1934, and 1935. It was not as high in 1935 as in 1932 despite the funding of relief. This shows, I suppose, that hope springs eternal in the human breast. Whether or not the increase in provincial debt was due to chance, extravagance, or inadequate revenues can only be determined by inquiry. I think this is important and I suggest that an inquiry should be made to determine why the municipalities show a decrease when the others did not show a decrease. In 1935 about 28.15 per cent of the national income went to public expenditure, and about 18.47 went to taxation. Whether municipal response in current expenditure and in debenture debt was due to provincial supervision, insufficient revenue base, inability to borrow money unless economy were exhibited, control by public opinion, or all of these causes, could only be determined by long, detailed and nation-wide inquiry. I suggest such an inquiry should be made. As I have said before, in 1935, about 30 per cent of the national income went to public expenditure, and about 20 per cent to taxation. Insofar as expenditures were



for necessary services and these services were provided more economically publicly than privately, the cost of living to the average citizen is not increased. An increase in the percentage that public expenditure forms of the national income may represent an advance. Insofar as an increase in public expenditure does not mean an aid to production and distribution, there is a net economic loss. If there is waste in government, or if the government undertakes unnecessary but desirable services in advance of ability to pay, the burden of taxation is to that extent morally and economically indefensible. If you look at the streets of some cities you will find that the pavements are in such a bad condition that there must be a huge amount of wear and tear upon the motor transportation in that city. In another city the streets may be in such good condition that there would be reduced wear and tear. This would be a distinct help to the business and industry of this city which employed people and might have a direct effect upon unemployment.

(Page 6650 follows)



So it may be that increased expenditures may be a good thing, in so far as they produce services which are of value to the people in living, but when they do not produce service of value to the people in living, and if they undertake services which are in advance of the ability of the people to pay for them, taxation is a real drag upon the people. I want to make that clear when I say there has been a tremendous increase in taxation, I do not mean all that increase is bad, only that part of it is bad which is uneconomical.

COMMISSIONER ANGUS: Would you make a special category for taxation which simply transfers income; for instance, when old age pensions are paid it neither increases the cost of living nor decreases it.

DR. BRITTAIN: There are a good many things that do not either increase or decrease the cost of living, but there are, on the other hand, a good many expenditures of government which really do increase the cost of living.

COMMISSIONER ANGUS: What I mean is, those expenditures that do not affect it may affect the total expenditure and the per capita expenditure.

DR. BRITTAIN: Of course that is true, but even a waste in those is a bad thing for the country, even if it does not affect the country as a whole, because I doubt very much if the government should use its position to take money from one section of the population and give it to another section of the population in advance to the need for that. Bad administration of those services is also bad.

You will find table 10, on page 24, a table which covers some of the points that we have been speaking of now. The total governmental expenditure in 1922 was \$720,309,719; the total national income was about





\$4,000,000,000. The expenditure in 1935 was \$1,070,969,241 out of a perhaps underestimated net income, - national net income. On page 24 you will find some percentages down below that. The percentage absorbed by public expenditure in 1922, 18%, and 15%. In 1935 the percentages were 28% and 18%.

THE CHAIRMAN: When you say 18% and 15% you mean 18% absorbed by public expenditure and 15% absorbed by taxation.

DR. BRITTAIN: But you cannot add those together; the 15% is included in the 18%.

THE CHAIRMAN: Part of the 18%. And 28% absorbed by public expenditure, and 18% absorbed by taxation.

DR. BRITTAIN: That is right.

THE CHAIRMAN: In other words, the different governmental units were spending much more in proportion to their income in 1935 than they were in 1928.

DR. BRITTAIN: In 1933 it was the peak. You will notice it is 30.61% of the total national income went to public expenditures.

THE CHAIRMAN: 20% was absorbed in taxation. In other words they raised taxes to the extent of 20% and they spent 30%.

DR. BRITTAIN: Yes, there were other revenues besides taxes; that means there were other revenues besides taxation.

COMMISSIONER DAFOE: That does not include borrowing?

DR. BRITTAIN: That does not include borrowing, it is purely current.

COMMISSIONER DAFOE: It means revenue from utilities and land?

DR. BRITTAIN: No, there is no utility revenue here; it is general revenue. But there is revenue in a city from fees, fines, surpluses of public utilities, - not the public utilities themselves but the surpluses of the public util



public utilities themselves, but the surpluses of the public utilities. For example, in Toronto almost \$800,000 goes into the general revenue.

COMMISSIONER MacKAY: Would you include such things as stumpage tax?

DR. BRITTAIN: Yes.

COMMISSIONER MacKAY: You would not call that tax.

DR. BRITTAIN: I am not sure whether that would be called a tax or not, but I imagine it would be the revenue from the public domain. But the taxation basis would be, of course, general revenue.

THE CHAIRMAN: I am not quite sure I follow you there Dr. Brittain. You have "Percent of national income absorbed by public expenditure". Now, is that public expenditure by all governmental units?

DR. BRITTAIN: Yes, all general public expenditures. That does not include water works or telephone or hydro.

THE CHAIRMAN: All general expenditures?

DR. BRITTAIN: Yes.

THE CHAIRMAN: Where a government has a deficit and borrows to meet it, would not that be included there?

DR. BRITTAIN: Well, of course, if it was a current expenditure and it has not the money to do it and borrows the money, we regard that still as a current expenditure.

THE CHAIRMAN: That is what I mean.

DR. BRITTAIN: Yes, that is right. Returning to the memorandum, "There have been great changes in the sources of public revenue. In 1904 there were no taxes on gasoline automobiles, or sales, and only a microscopic amount of taxation on income. Now over 30% of the total public revenues come from these sources. The taxation of real estate was 25.41% of the total in 1904; 31.53% in 1930; and 29.66% in 1935. It is still the largest single source of public revenue. If over a term of years, the net return on investments on real estate do not suffer by comparison with comparable investments involving similar risks, the public interest is served and private interests are not penalized.





Over taxation of any source will in time defeat its own purposes and result disastrously for the public. This is true of income taxes and succession duties as well as of real estate taxation.

On the whole, the revenue structure of government in Canada at its three levels does not show any planning from the national standpoint. What taxes, to what extent, and to which levels, how collected and how utilized, are questions which must be answered from the national standpoint if the interests of the citizens and taxpayers are alone to be considered.

THE CHAIRMAN: Perhaps you deal with it somewhere else, Dr. Brittain, but is your conclusion that the burden on real estate is not more than its fair share of the general burden of taxation?

DR. BRITTAIN: Well, during the depression it has certainly had a terrible time. I think it would be necessary to go back fifteen years and get the net returns, find out what the net returns from the different kinds of real estate were all over the Dominion in order to be able to make a categorical statement that it was too highly taxed. I believe it was improperly taxed, and that is taken up a little later on. In 1904 public expenditures were 91% of the revenues. That is, they spent 91% of what they took in. In 1935 expenditures were 125% of the revenue. That is, they spent 25% more than they took in in revenue. In 1933, 1934, 1935, each of the levels of government showed a deficit; that is, the Dominion and the Provinces and the Municipalities showed a deficit.

COMMISSIONER DAFOE: You have no capital expenditure in there?

DR. BRITTAIN: No, the only place I deal with that is in the debt. It is impossible to get figures of capital expenditure which would be useful. In five years, 1930, 1932, 1933, 1934, 1935, the country contracted a net deficit of three-quarters of a billion dollars. This amount was added to the public debt, and you will find it in the debt figures.



Will similar surpluses be piled up during the years 1939 and 1943, and will the public debt be reduced thereby to a like amount? The question I am raising there, is, will the governments of Canada at the three levels be able to show in those years a real surplus and a real reduction in debt as a result of that surplus? I do not mean by that that they shall not assume any other debt, but that they will, out of current revenue, be able to reduce the debt in comparison.

THE CHAIRMAN: There does not appear to be any prospect of it in the figures so far available for these years.

DR. BRITTAIN: The Dominion did it partly, and if there is team play between the three levels of government there is no reason in the world why that should not be possible. There has got to be team play, however. If you look at table 15 on page 36, that is a summary of the Dominion, Provincial and Municipal surpluses and deficits, you will notice the net revenue in 1904 was \$62,585,107 and the net expenditure was \$54,722,017, and there was a surplus of \$7,863,090. While in 1935 the net revenue was \$370,053,619, the net expenditure was \$526,058,943, and there was a deficit of \$156,005,324. That is in the Dominion. In the provincial field there was a surplus in 1904 of \$1,336,407, and there was a deficit in 1935 of \$47,365,104. With respect to the municipalities there was a surplus in 1904 and 1913, and 1922. In 1922 it went up as high as \$3,635,726, and then there is a series of deficits except in 1932, when there was a surplus. All governments, a surplus of \$9,285,199 in 1904, a surplus of \$30,106,281 in 1913, a surplus of \$23,310,215 in 1922, and every other year from then on there has been a deficit, until 1935 - 1936.

THE CHAIRMAN: When it was \$220,276,211.

DR. BRITTAIN: Yes, you see that the period of in-



creasing deficits was very much more striking than the period of increasing surpluses. There is no surplus you can point to anywhere, amounting to \$220,000,000.

I will complete reading the paragraph;

"Out of every dollar of public expenditure in 1935 almost 32 cents went to debt charges and out of every dollar of revenue 40 cents. It is true that in 1922 36½ cents out of every dollar of public expenditure went to debt charges but there was a surplus that year of over twenty-three million dollars while in 1935 there was a deficit of one hundred and fifty-six millions. The percentage is on its way down and with real national control should decrease rapidly"..

You will find the relationship in table 17, page 41, The total debt charges in 1904 were \$21,873,000., and \$341,677,000 in 1935. They met 21% of the revenue in 1904, and nearly 32% of the revenue in 1936, but the revenue was 25% less than necessary to meet the expenditure, and that is the reason why the debt charges were a greater percentage of the revenue than they were of expenditures.

Now, it is natural to ask where the greater part of this current expenditure came in. With regard to four or five of the functions which have been mentioned as "Sink holes" of public fund, one of them is the cost of highways.

"The cost of highways and operating transportation deficits almost quadrupled between 1904-5 and 1935-6. On the per capita basis it slightly more than doubled. In 1932-3, 1933-4, 1934-5 and 1935-6 provincial revenue from motor licenses and gasoline taxes exceeded provincial expenditure on highways including debt charges levied which exceeded one-half of the total, but in many cases did not promote sufficient for the retirement of the debt during the lifetime of the work. If highway debentures were issued for not over fifteen years with sinking fund





"or serially, the ultimate result would be a reduction in debt charges. Highways would cost much less than at present if this course were followed and if during prosperous times a large part of construction costs were paid out of current funds. This would also operate in favour of sound construction".

What I mean by that last sentence is this; In municipalities where construction or expenditures is met out of current funds it is much more closely watched. It is only human nature that it should be more closely watched than if it comes out of borrowed funds that have been more or less easily obtained. That is one reason why it is so difficult to control welfare expenditures and other expenditures, where a good deal of human sympathy enters into it. I think that if we had conserved our resources in this respect we would be able to finance, in a very large part, our highway expenditures out of current revenue.

On page 44 you will find table 18, Provincial Operating expenditures on highways, debt charges on highway debt, total provincial current expenditures on highways, and revenue from motor vehicles and gasoline. We could not get for 1904 and 1913 the debt charges because unfortunately the governments have had, and some of them have the habit of issuing millions of dollars without specifying what they are for. So that it was impossible before that date and even after that date, without the help of the provincial authorities to find how much of the public debt was for highways.

COMMISSIONER ANGUS: Do these figures include relief work done on highways?

DR. BRITTAIN: They include all expenditures on highways, but they do not include capital expenditures on highways, and if the relief work was funded it would not be included.



THE CHAIRMAN: It is the actual cost of maintenance. This does not include any construction work?

DR. BRITTAIN: It includes interest on sinking fund in case you issue debentures for construction work.

THE CHAIRMAN: Practically operating expenditure. Where a province maintains a highway is that included?

DR. BRITTAIN: Yes, that is all included, and also the interest. Then welfare expenditures;

"Welfare expenditures have increased almost 47 times between 1904-5 and 1935-36 and increased almost 18 times between 1904-5 and 1930-31. From 1904-5 to 1921-2 the percentage that welfare expenditures formed of the total remained fairly stable; but it almost doubled between 1922-3 and 1930-1 and more than doubled between 1930-1 and 1935-6".

I think perhaps if you turn to page 47, starting on page 46, I would like to read over the text and also make some reference to the table;

"In this field of public expenditures the increase has been most spectacular. It has risen from less than \$4½ millions in 1904 to almost \$207 millions in 1935". This, by the way, includes health, because it was impossible in many cases, to segregate, particularly in the early years, between health and welfare, and in actual practice in administration it is very difficult, in many cases, to separate the two.

"Next to debt service the expenditure on welfare services is now the largest functional expenditure of government in Canada. The depression is not the only cause of this, nor is unemployment relief the sole determining factor as the increase began long before the depression. The welfare expenditure, in 1930, was about \$79 millions, and in 1932, was \$143 millions. Possibly half of the 1935 welfare expenditures are for direct unemployment relief.





Capital expenditures on works, other than Dominion contributions paid out of current account, are not included in the statement of current expenditures shown in Summary Chart A of the Appendix. A large part of the increase has not been due to an economic disaster but to a rapidly changing public opinion with regard to social services.

Old age pensions and mothers' allowances are comparatively new functions and hospitalization of indigents, for example, took on a new emphasis long before the depression. Without a change in popular psychology probably even the expenditure on direct relief would not have been so large. There is a growing sense of social solidarity. Unfortunately with such rapid changes as were necessitated by the depression, there has been an obvious decline in the sterner personal virtues and some have gone so far as to say that the independence of a large part of the citizens had been permanently undermined. It is fairly obvious that the greatest problem for governments is to work out standards of social services and methods of administering and financing them which will add to and not subtract from the quality of Canadian citizenship".

The following table shows the growth of governmental expenditures for welfare purposes. In 1904 it was \$4,421,183; in 1935 it was \$206,951,687, practically \$207,000,000. The total current expenditure was \$103,501,909 in 1904 and the welfare expenditure was 4.27% of that. In 1935 it was 19.32% of the total expenditures of governments for social service.

"Next to highways and transportation current deficits, the cost of public education showed the least increase of the four main elements in increased costs. After 1930 there was no drop but a large increase in per capita



"debt charges (other than educational) and in per capita welfare expenditures, but there was a large drop in transportation (highways, etc.) (current expenditures only excluding debt charges) and a somewhat smaller but still large drop in educational per capita."

If you turn to page 48, it shows the cost of education. It has gone up from \$14,000,000 to \$127,000,000, but the peak was in 1932, \$140,681,537. That is gross, and it has gone down from \$140,000,000 to \$129,438,000, and the net has gone from \$127,000,000 to \$118,000,000. There was a decrease every year except in 1935, when there was a slight increase. I think that that should have some bearing on the statement that the schools are less responsive to public will than other forms of government. There was a very decided decrease in the total and per capita costs of education. On page 49 you will see a comparison between these four elements. Debt charges went up from \$3.75 to \$29.70. Transportation went up from \$3.51 to \$7.28. Public welfare went from .76¢ to \$18.92. Education went from \$2.37 to \$10.86. It might be well to point out to you that the net per capita for education in 1935 was 10.86, and back in 1922 it was 11.96, so that there has been a natural drop in the per capita since in 1922.

"Budgets to be effective must be much more finely itemized than at present. The functional appropriations must be supported by costs of objects of expenditure, such as salaries and wages, contractual services, supplies and equipment, repairs, interest and sinking fund or depreciation. These should be supported by unit cost figures wherever possible and by reasons for increases and decreases. This should apply to all levels of government".

For example, ~~in~~ appropriation by a department in a municipality ~~or~~ province, or the Dominion, it is not nec-



essary to simply say how much is to be paid for salaries, but it should state who to, the names of persons, and how many persons, and at what rates, and when there are increases, the reason for the increases should be given. There was one city in Canada that until recently always gave the reasons for any increases it asked for, not only in total but under the various items that made up the total, and I think this is something that ought to be followed in all the levels of government so that the people who cast votes might have something to guide them. The average member of a city council is helpless unless he has such information before him. You often see in newspapers the statement "Council cuts the estimates with an axe". That is not the way to cut estimates, they should not be cut with an axe, they should be cut with a pruning hook.

COMMISSIONER ANGUS: Do not the newspapers always call a pruning hook an axe?

DR. BRITTAIN: Perhaps they do, but there are very few pruning hooks in municipal affairs. I think the newspapers are correct when they say an axe, or by chance. It is done very often by chance. They want to bring the tax rate below a certain amount, and they take it from where it will do the least harm, -- I mean where it will do the least harm to the representative of the people the least harm.

"There can be no complete control of the current budget and no effective control of the debenture budget without a long term capital budget, revisable annually in the light of changing conditions. A capital budget at each level of government is not only necessary for the control of current debt charges, but co-ordinated capital budgets at all levels are necessary for the proper control of public expenditures, from the standpoint of recurrent depressions".





I think that is the most important sentence in the brief.

COMMISSIONER MacKAY: Are there any governments in Canada which follow that practice, Dr. Brittain?

DR. BRITTAIN: No, but in Great Britain recently the municipalities have been compelled to form long term budgets, and there are quite a large number of cities in the United States which do have a long term budget. They know where they are going when they have a long term budget, but if they do not have a long term budget they are there before they know it. The only way you can co-ordinate the capital expenditures of the three levels of government is to have co-ordinated budgets, and if they have no budgets how can they co-ordinate them?

THE CHAIRMAN: You think that it is a case "We don't know where we are going, but we are on the way".

DR. BRITTAIN: Yes, like Christopher Columbus, somebody said he didn't know where he was going when he left, he didn't know where he was when he got there, and he didn't know where he had been when he got back.

COMMISSIONER DAFOE: When you talk about co-ordinated budgets, do you mean that there should be some consultation between the governments?

DR. BRITTAIN: Surely, and you will find in the brief, or rather in the submission, - I dislike to call it a brief on account of its length, - a statement that there should be a series of conferences all the time, which should not be just once in a while when somebody thinks about it, but it should be a regular thing; conferences between officials and heads of departments of the provinces and the Dominion, and the provinces with the chief cities and with the municipalities.

COMMISSIONER MacKAY: Sort of "Public Works Council".

DR. BRITTAIN: You will find on page 110 and pages following how co-ordination might be brought about. If you



like I will go on with that.

THE CHAIRMAN: Yes.

DR. BRITTAIN: Perhaps I had better start on page 109, paragraph 4.

"Governmental expenditures are only a part of the total national expenditures and should bear a definite relation to them. Naturally, as a general rule, governmental expenditures should supplement and not compete with private expenditures. In normal times, large governmental current expenditures may act as a drag on industry by increasing overhead costs. In sub-normal times, governmental expenditures, in so far as necessary, out of borrowed funds may take the place to some extent of private orders. Governments which use surpluses in good times to retire public debt and to build up a reservoir of credit may perform in bad times a real service to industry and those employed in industry. The most acceptable time to reduce taxation and current expenditures is when taxes are hard to pay. But this is impossible, unless the way has been prepared for it. The abolition of taxes in good times is not always good economic, although it may be excellent political, practice. If a government at one level does not at any moment need a tax, it might sometimes transfer it or at least its proceeds, less cost of administration to a lower level, or it might retain the tax for itself and use the resulting surplus to reduce public debt. It is remarkable how quickly current costs are reduced by the decrease in annual debt charges following the adoption of a debt reduction policy.

The slow growth of accrual accounting in the governmental field militates against the most effective





"use of budgets in controlling current expenditures. As soon as an order for supplies or equipment is made its effect on appropriations should be recorded. Excess of depreciation over sinking funds or annual retirements of principal debt should be entered on the accounts and show in operating expenses and affect the balance sheet. It should be possible at every level of government to issue monthly or quarterly statements showing the state of appropriations as to unexpended balance and unencumbered balance for every department and every main function within departments. If this were done and allotment appropriations set up each quarter modifying in accordance with conditions the appropriations made at the beginning of the year, current appropriations would be much more sensitive to current control".

That is, make an appropriation for a full year, but at the same time make an allotment for three months and at the end of three months make another allotment governing all conditions which have changed in the first few months. By allotment accounting the authority which is appointed by the apportioning body can control the budget throughout the year instead of waiting until the year is over.

You will find in other places, from page 50 to 60, not only the budget of expenditures to be made out of current revenue funds, and the budget of expenditure to be made out of debenture funds, but also some remarks about personnel administration, on page 55 to page 60, administrative surveys on page 60, and co-operation in tax collection on page 60 also. Perhaps I had better refer to the text on page 55:

"Personnel Administration.

In some municipalities, more than 50 p.c. of the



"total cost of government is made up of salaries, wages, and other payments for the services of persons. Of total costs other than debt service costs, the percentage may exceed 75. (In boards of education it probably would exceed 75%). Of the remaining 25 p.c. a great part is made up of costs of supplies and equipment, which depend both as to quantity and price very largely on the efficiency of the personnel. Even the debt and debt charges depend on the personal equation. In varying degrees the same conditions obtain in units at all levels of government.

Any attempt to secure efficiency and economy in government without careful study of this most important aspect of public affairs will be futile. The efficiency of government, like every other human undertaking, depends on the individual and group efficiency of its employees and management. The annual reports of the Civil Service Commission of Canada constitute a record of achievement in the field of personnel administration. The Federal Government is spending annually on current account at the rate of \$450 millions, not including relief, or \$290 millions over and above debt charges and relief. About \$85 millions of this go to salaries, wages and other payments for personal services. In only two or three of the provinces can anything approaching the record of achievement of the Civil Service Commission of Canada, be found, although in several other provinces recent developments contain promise of future accomplishments. When it is considered that the provinces spend on current account annually \$190 millions (not including unemployment relief), or, without including debt



"charges \$130 millions, of which possibly \$40 millions go to salaries, wages, etc., it is apparent what a promising field personnel control in provincial administration offers to studies looking toward cutting governmental costs and improving governmental efficiency.

In the municipal field three cities within the last two decades have had made for them personnel surveys classifying the civic service into grades of work and corresponding rates of pay for comparable work. In two of these has a continuing organization been established to preserve the fruits of the survey and keep the classification up to-date in the light of conditions in the fields of public and private employment. On the whole there is no municipal civil service organization on the basis of merit in appointment and promotion. On account of the traditions in municipal affairs of appointments of important officials for life or good behavior, and to a less extent of non-interference with interdepartmental affairs, the failure to establish the merit system in the municipal field has not led to as many spectacular break-downs in service as might be expected. The municipal record has been respectable, too respectable to attract critical attention on the part either of authorities or of the taxpayers. The municipalities of Canada are spending annually on general current account, not including public utilities, over \$300 millions. If \$100 millions debt charges are subtracted from this, the annual expenditure in operation of municipalities (including schools) is \$200 millions. Of this about \$150 millions go to salaries, wages, and other payments for personal





"services.

That is, in Canada, the governments of Canada spend annually for personal services a total of say \$275 millions, or 44% of the total general expenditures other than debt charges and direct relief.

A study of governmental personnel would answer the following questions, among others,

1. Is the public service divided into departments, sub-departments and bureaux in such a way as to make possible the most economical use of personnel in producing services?
2. Have existing departments too many or too few employees for the work expected?
3. Are there proper facilities for the interchange of personnel in emergencies?
4. Are all appointments, promotions, demotions made on a basis of merit?
5. Are continuous service records kept of all employees?
6. Is there equal pay for equal work in all branches of the public service, whether under Boards or Commissions or general public authorities, and is pay in the public service fairly comparable to that in private undertakings?
7. Is the pension system, if any, so devised so as to assist in maintaining the classification and operation on the merit basis, or in other words, is it maintained primarily in the interest of the citizen?
8. Is there a continuing organization which makes inquiries under all these heads and with authority to rectify any undesirable conditions disclosed?"

In regard to Number 6 it is not only important to have



equal pay for equal work in municipalities, but also including the municipal corporations, such as hydro, transportation, water works, and any other activities which are run as separate branches. It is a very demoralizing thing to have an engineer, for example, under a commission paid more than a city engineer who does more important work. One reason for it is that there is not the same scrutiny of the salaries and wages under commissions as those directly under the city council. This is essential for the soundness of municipal affairs and in order to get the best value we can out of our employees, not only the set-up of the municipality but also the local personnel set-ups and all organizations which administer service for the municipality.

Then as to the pension system, I think that everybody should have a pension. I am getting to the age when I would like to have one myself. I think also that everybody ought to do work to justify the granting of a pension, and it seems to me that governmental pensions, municipal pensions particularly, should be set up not only to provide for employees but mainly in order that the people who pay the bills shall get the greatest value for what they pay out. In municipality after municipality you will find twenty, fifty, one-hundred, or perhaps three or four hundred employees who should not be there, because they are in bad health or because they are suffering from old age, but if there is no pension fund no one has the heart to discharge them.

THE CHAIRMAN: That is a very interesting and important matter, no doubt, Dr. Brittain, but that is getting into a detail which is beyond our scope, dealing with public taxation.

DR. BRITTAIN: Well, of course, it is directly related to taxation, because a very large part of the





whole expenditure which causes the taxation comes from personnel service and I think it is very important that somebody should go into the question of control of the personnel of government.

Then Number 16 on page 7:

"Personnel establishment and administrative surveys should be continuous at all levels of government".

You will notice, Mr. Chairman, I put that in one sentence. The reason I enlarged on it is because I thought you would like more detail.

"There should be complete co-operation of tax collection in income taxes, in succession duties and any other form of taxation to the extent that it is possible. There should also be complete co-operation, wherever practically possible, between audit branches and inspection branches. The possibility of such co-ordination should be explored continuously through conference".

I am referring particularly to the audit and inspection branches of the Dominion and the provinces.

"The principles of uniform accounting, uniform reporting, centralized statistics and centralized purchasing should be promoted".

One of the means of promoting it I have already referred to; that is, cutting down the number of local public bodies.

"Succession duties not suitable as a basis for current budgetting on account of the great fluctuations in their product. All received in any year over the average of, say, a five or ten year period might be used for debt retirement or capital expenditures as circumstances might warrant. If an individual receiving a salary of \$2,500 a year received bequests of \$3,000. \$4,000. and \$5,000. in



succeeding years, he would be foolish to establish a standard of living of \$7,000 in the third year. Scales of living once established are hard to bring down".

Now, if you look at the figures you will find that there are tremendous fluctuations in the amount of returns in succession duties. The point is this, that where there are great fluctuations and you cannot tell whether next year there are going to be a lot of deaths of wealthy people, the wise thing to do is to establish a level. That would be also of use for current purposes.

COMMISSIONER ANGUS: Do you mean in making up the estimates, that the estimated death duties usually are put in too high?

DR. BRITTAIN: Yes, it should be only the average, and the amount over the average that is actually received, it seems to me should be used for debt retirement or necessary capital expenditures which would necessitate, if not otherwise financed, the issue of debentures.

"Real estate taxation produces between 85% and 95% of the total tax revenue in municipalities and in 1935 produced almost 30% of the total public revenue of the country. Whether or not this is a proper contribution depends on whether or not, over a term of years, the net return on investment in real estate is fairly comparable to investments in other directions offering similar security. Unfortunately data as to this are very meagre, entirely absent or presented in an ex parte manner. Since the depression, however, the tremendous growth of tax arrears (page 98) and the loss of equities has demonstrated that real estate has been hard hit. Possibly similar statements might be made about other forms of investment. Recent years have been



"marked by a growth in social services. This has led to an increase in real property levies. It is difficult to see what connection there is between some of these services and real estate. Part of educational expenditures, part of health expenditures, etc. undoubtedly, while rendered to persons in the first instance, do increase returns from real property. Some social service expenditures have little or no relation to real estate values. Much educational expenditure, some health expenditure, hospitalization of the indigent, old age pensions, mothers' allowances, etc. must, in public interest, be met out of public revenues other than real estate taxation. This can best be done, possibly, by shifting the cost or part of the cost and in some cases, administration from one level of government to another."

If the municipalities are not to have any income from income tax it seems to me that there ought to be some shift either in the subventions from the province to the municipalities, or an actual shift of some of the services to the Dominion and the province, that would make it possible to partly, at least, finance welfare services other than through the taxation of real estate, which should be limited only to the extent that real estate is benefited thereby.

"Unless, however, these costs are borne out of existing public revenue, and unless municipalities resist the urge to expand in other directions once the local burden is lifted, no ultimate benefit is likely to accrue to real estate."

That is, if the municipalities, after they have the load lifted from them, persist in accumulating another load, real estate will not be any better off than at the present





time, and if the Dominion takes a burden off the province and the province insists on increasing its expenditure in the same way it will not be any better off than before.

"The imposition of such taxes as local or provincial sales taxes, may in reality effect no shift in the incidence of the burden of taxation in so far as they may lessen the funds out of which rents are paid. There is little to be gained by reducing the tax bill and at the same time reducing resources out of which rents may be paid".

If you put a local sales tax on people in a municipality that may so increase the cost of living as to make it impossible for them to pay as much rent, and the capital values of real estate may be hit, so that it is not such a simple thing to put on new taxes.

"One of the burdens on real estate and one of the contributory causes of accumulated tax arrears is unscientific and inequitable assessment. In one province, and possibly more, the assessed value of a building is the value it adds to the land on which it is placed. This means, if it means anything, that if the building results in inadequate revenue, it adds but little to the value of the land."

I will read the wording of the statute in the Assessment Act. "In assessing land having any buildings thereon, the value of the land and the buildings shall be ascertained separately, and shall be set down separately, and the assessment shall be the sum of such values. The value of the building shall be the amount by which the value of the land is thereby increased." Not what it costs to put up the building, not what it costs less depreciation, but the value that it adds to the land.



COMMISSIONER DAFOE: Is that readily determinable?

DR. BRITTAIN: In bad times where there are not very many sales it is very difficult to determine, but in cases it can be determined, of course, by going into the revenues. If you can ascertain the net revenue from the real estate you have a fair line on the capital assessment.

COMMISSIONER SIROIS: Is that an Ontario Statute?

DR. BRITTAIN: An Ontario Statute.

COMMISSIONER SIROIS: Would you give us the full reference, please?

DR. BRITTAIN: That is the Assessment Act, section 40, sub-section 2. It was in one of the other provinces, I understand, and I was told that it was taken out because it was very inconvenient to the local authorities. They wanted to be able to assess property at more than it was worth.

"This means, if it means anything, that if the building results in inadequate revenue, it adds but little to the value of the land. In other words, the chief index, among others not so important, of capital values of improvements is their earning capacity. If this principle were always observed, there would be less inequality in the revenue structure of municipalities. A recasting of realty assessment methods in many communities is long overdue. A burden which is so placed on the victim as to chafe is a double burden."

It seems to me that a man can carry his burdens if the means of suspense is all right and does not chafe him, but assessment has been so unequal in many places that people have lost their property, not on account of over-taxation but because they were over-assessed. Assessment is a matter of spreading taxation in such a way that everybody will pay their fair share of the



taxes, and if a man's assessment is more than it ought to be, then that man is paying more and somebody is paying less. It is a very essential matter that this should be looked over.

"Exemptions is also a topic which needs prolonged study. If real estate taxation were put on a sound and equitable basis all real property irrespective of ownership should be taxed. The percentage that exempt property is of taxable, in 17 Canadian cities, varies between 17.7% and 82%. Inasmuch as all property has some effect on local expenditure, there is here manifest inequity."

The way it appears to me is this, if a building is to be taxed there are two reasons it has to be taxed. One is it receives services and the other is that the people that are employed in it receive services. Now, if a million dollars is spent to put up a departmental store, not only are the employees of the departmental store taxed but the departmental store itself is taxed, and its tax is necessary because the services rendered by the municipality are not defrayed, the costs are not defrayed by the taxes on the employees, and it is necessary to get the taxes on the corporation and the building. If a post office is put up, it may have hundreds of employees. Not only should the employees be taxed by the municipality but the building should be taxed by the municipality. In the same way that is true, it seems to me, of Dominion, Provincial and Municipal buildings. In England, I am told, that the municipal buildings of public utilities are made to pay. Until recently even stores for the sale of liquor operated by the provinces did not pay taxes. And for sometime even the store of one of the other utilities in Toronto did not pay taxes. Now, the manifest inequity of it was seen.





at least that taxation should be on the same ground. When it comes to buildings like churches or any other buildings where the building cannot be used for any other purpose except the purpose for which it was put there, there is a different position. However, the law even covers that, because the law says that the value of the building shall be what it adds to the value of the land. If you have on your hands a church building, the worshippers of which have fled, you will find it is not worth very much.

COMMISSIONER ANGUS: Would not the argument for inequity be that very often a building, such as a museum will be receiving services and also yielding service to the public, and the two offset each other?

DR. BRITTAIN: You could say that, for example, in the case of a Bishop living in a community, he renders service to the municipality very much greater than the municipality renders to him, therefore he should not be taxed.

COMMISSIONER ANGUS: I do not think that is quite comparable. I was thinking of the museum as an institution, that is not a money-making sort of thing.

DR. BRITTAIN: No, neither is the Bishop.

COMMISSIONER ANGUS: And the people are entitled to the service free, we assume they are admitted free. The advantage to the municipality of having such a building there might very well offset the amount of taxation the municipality could levy on the building.

DR. BRITTAIN: I think, for example, of a building belonging to the province, such as a museum building, the city might very well tax the building and the province should pay the taxes, but the city should make a grant to it. That is the way to do it, because if it is done the other way you don't know whether they balance one



another or not, unless they are gone into. The thing to do is to put every tub on its own bottom it seems to me. I think a municipality very often should make grants to Government institutions as well as vice versa.

COMMISSIONER DAFOE: Do you differentiate between various kinds of Government property?

DR.BRITTAIN: I would not differentiate between any kind of Government property. I think, however, the argument for public utilities is much stronger than it is for post offices and buildings like that. Even public utilities that are not operated for profit, it seems to me, they should bear the whole cost and irrespective of ownership. The Hydro system or waterworks system gets certain services from the municipality and it should pay. If it does not get certain service from the municipality, even if privately owned, it should not pay.

COMMISSIONER DAFOE: What I was wondering about was public offices, like fortification.

DR.BRITTAIN: Well, I had not thought of that. I should think that might very well be left the way it is. We have to have protection of course. I have not gone into it. I do not suppose there are many cases like that.

COMMISSIONER DAFOE: Halifax and Esquimalt.

DR.BRITTAIN: Yes.

COMMISSIONER ANGUS: The Municipality might agree to make a grant to a museum but it might not agree to make a grant for a building such as the Parliament Buildings.

DR.BRITTAIN: They do it now. The Province of Nova Scotia pays the Dominion Government part of the cost of policing the province of Nova Scotia. Several other provinces do the same thing. It is a fine thing to do and I do not see why the municipality could not pay the



province. The Dominion gives a grant to the province and certain provinces give a grant to the Dominion for services rendered, and it is easy to ascertain what the services are and how much the services cost. I do not see why it cannot be done for other institutions if it is done for policing. At any rate I feel quite confident that something will have to be done about the taxation of property that is held other than by private individuals.

COMMISSIONER MacKAY: Have you given any consideration to the English principle of taxing the occupier of land rather than the land itself or the owner? Do you think that is at all applicable to Canada?

DR. BRITTAIN: Personally, I am in favor of the present system in Canada for two reasons: First it requires a tremendous amount of training to apply the British system and in the second place we are a new country and I think any system of taxation which exempts land, vacant land, is bad. For instance, there might be in the centre or very near the centre of a large city like Toronto a piece of land which was held out of use for speculative purposes. I think it should be taxed in the public interest and also because it costs the municipality money. For example, some three or four years ago I was in a municipality in British Columbia that had four or five villages in the municipality, and for the sake of votes certain conveniences were uneconomically taken to one of the more distant villages. Well, the cost was tremendous and of course the question came up whether the intervening land should pay any taxes or not. The fact was that the intervening land added greatly to the expense of that improvement, policing, fire protection, sewers, streets and everything else, the cost was added to by the existence of the vacant land. So I am opposed to any system of taxation that will exempt that. However, I do think that the





British system of taxing that revenue is just, so far as it applies to improved property, but I think we can obtain the same thing in Canada without the difficulties, by the adoption of the principle that is founded on the indices that capital value shall be earning capacity.

Now, it makes no difference to a man if he pays one per cent on ten thousand dollars or ten per cent on a thousand dollars. So it makes very little difference which it is, but our system is much more easily operated and I think for our conditions is much more just.

"In conclusion the Institute wishes to emphasize the following points:

(a) Over a term of years, public expenditure must be made to balance public revenues."

That is, it is not necessary to have a balanced budget every year, but it is necessary to have a balanced budget over a term of years.

(b) Taxes or other sources of revenue should not necessarily be abandoned in prosperous times. Their product might possibly be better used for retiring debt.

(c) A nation-wide constructive and permanent policy as to unemployment relief must be adopted and applied not only from the standpoint of conserving physical assets but human values.

(d) A positive policy with regard to transportation deficits must be adopted and carried out. In 1930, transportation deficits were 49% of what was paid to meet net public educational costs, in 1932, 75%, in 1933 82%, in 1934 76%, and in 1935 74%."

That seems to me sufficient to indicate what I think about the drain.



THE CHAIRMAN: When you are speaking of transportation deficits, are you referring to the National railways or are you referring to various systems of transportation?

DR. BRITTAIN: I am referring to National railways and National steamships. I put the two of them in transportation deficits.

"In 1935-6 each citizen in Canada in effect bought an \$8.00 railway ticket and did not get a ride, at least he did not get a railway ride. A return of normal or more than normal times may possibly blot out the deficit, or the deficit not including interest on government advances. This will not stop the leak. It will only hide it. In any event government advances are only advances from the resources of the citizens of Canada. Surely some better way of applying these resources can be found than meeting transportation deficits. If \$10,000,000 per annum can be saved, the people have a right to it.

(e) Adequate budgetary and accounting control must be established in all jurisdictions."

THE CHAIRMAN: That is a general proposition. Your society has not worked out or suggested any method of dealing with that?

DR. BRITTAIN: We have not a transportation engineer on the staff and we have not gone into it, but I know if we keep on spending money we do not have where we will end up, - at least that has always been the way in my case.

(f) "There must be a realignment of the administration and costs of social services within the present or decreased public revenues."

That is, we must not increase taxation for the same services that we are giving now. You will find that



discussed at page 111.

(G) "There should be a redistribution of educational costs in the interests not only of real estate but of the children."

THE CHAIRMAN: What re-distribution do you suggest?

DR. BRITTAIN: I think, for example, that the British system of 50%, about 50%, of educational costs, might be carried by the province. I do not think the province, and the children in the province of Ontario at the present time are getting a fair deal in the outlying districts. A tremendous amount is being done for them but I have in mind several small rural schools where the cost is excessive and where the results are very small. I think that would be largely changed by putting more of the burden on the people of the province.

COMMISSIONER DAFOE: We found in the far West the suggestion that the responsibility of the local school districts should not extend beyond building and maintaining the physical property for housing the children, the rest should be borne by the province.

DR. BRITTAIN: It depends on the province. A province like Prince Edward Island which has three counties, and the ~~are~~ are mostly for judicial purposes, and there are only five or six municipalities in the whole province, I think it is very well, and a very large portion of the cost is borne by the province. I think it is right it should be. And I think perhaps it might be in British Columbia where the settled portion of the province is so limited in area. But I believe it is a healthy thing to have the local people really bear some of the costs that they feel with education. I think it is a good thing, and I prefer the British system to the Australian system where 100% is borne by the State.





COMMISSIONER DAFOE: It is necessarily a tax on real estate.

DR. BRITTAIN: Yes, it would be, and I think real estate is helped somewhat by the existence of schools. I think it is nothing more than right that they should pay something for the support of schools.

THE CHAIRMAN: That was challenged before us on some occasions. It was said by some that real estate was not helped by schools. Why do you say it is helped?

DR. BRITTAIN: I am just judging by my own experience. I rented a house for some time in Toronto and I sent my children to public school and collegiate institute and technical school, and it cost the city of Toronto far more than I paid in taxes, of course, but I had an interest in the school, I felt that I should pay taxes for the school. And since I bought a house I have paid taxes to the municipality. I would hate to own property in a municipality that didn't have good schools.

THE CHAIRMAN: Quite. People would not live in a municipality without educational facilities.

DR. BRITTAIN: I don't think so, and the houses would be no good unless there were people that were willing to rent them or buy them.

(H) "Reserves of governmental credit must be established in advance of depressions.

(I) The public domain should be so administered as to produce the greatest possible financial return.

(J) Public securities should all be payable in Canada only.

(K) History shows that demand for new revenues has had more effect on the forms of new taxation imposed than theoretical or scientific consideration. The control of the amount of taxation is therefore



at least as important as the form that taxation shall take."

I think that is very important although perhaps a truism.

(L) "While all details must be carefully studied, the chief requirement at the present time is a national viewpoint."

COMMISSIONER ANGUS: Going back for one moment to the public domain, would you be insistent on distinguishing depletion of the public domain from the revenue for its continued use and treating the depletion revenue as capital?

DR. BRITTAIN: Yes, I think so. I think if a province owns large forest resources, particularly if it does not take any effort to treat it as crop, it should take anything that it gets from it for capital purposes. If they treat it as crop then of course they should take the crop value each year, but there should not be any more than the crop value taken. And in the same way, not so important, if there are parks, I think there should be greater charges made for the use of the parks by the people who can use them. There are very many millions of Canadian citizens who never have a chance to use them. You find that on page 116, the discussion of it.

(M) " In the last analysis the governmental machine of Canada can be adjusted to the needs of citizens and taxpayers only by a continuous survey which will decide -

1. What public services should be rendered at each particular stage.
2. By which public authority should these services be rendered.
3. What organization is needed to produce each service.



4. What should be the cost of each service and how should costs be distributed, and revenues therefor be collected.

Every public department, every bureau of each department, every service of each bureau, each job in each service must be required to justify its existence, and each holder of a job must be prepared to justify the quality and quantity of his or her service in relation to the stipends paid. Public authorities have no rights as against the citizens. They have only duties to the citizens. The citizens do not care which of their corporations renders the services they require, or to which authority they pay their taxes. They have the right to be assured, that, so far as is humanly possible, the money they contribute buys the most possible service, consistent with principles of humanity. Even taxpayers themselves are human as well as human.

THE CHAIRMAN: Dr. Brittain, while undoubtedly that statement is correct, should be the rule governing, do you think under our present system of government one is likely to get that scrupulous regard for fitness and public expenditure which you there suggest?

DR. BRITTAIN: Mrs. Phillip Snowden made an address before the Empire Club some years ago in Toronto and one of the statements she made, that always stuck in my mind was this: That any people could operate any public utility or operate as a public service any necessary human service in proportion to their honesty. And I think that is largely a matter of character and intelligence, mostly character. I think we are getting better. I think we will have to get a lot better before it will be safe to incorporate in our public set-up many of the services that we need as human beings. I think there is a very





manifest tendency in Canada and in other countries for authorities elected and appointed at various levels of Government getting together. To my knowledge there has been a tremendous improvement in agricultural administration in Canada by the getting together of men that were interested as citizens in producing the best results. If that can be done for agriculture it can be done for every other occupation or for every other service rendered by Government. And while I admit that this is a gospel of perfection, it must be always before our eyes and it should be the chart towards which we would work.

THE CHAIRMAN: Quite so.

DR. BRITTAIN: If we can get 100% cooperation between the different levels of Government. If we say we cannot, we cannot. If we say we can perhaps we can. And we certainly can to some extent, much greater than at present. We have shown a capacity and the use of a capacity always means added capacity.

COMMISSIONER DAFOE: Is not progress towards that end dependent upon admission to services on the basis of trained ability and protection after they get into the service? And is not that very largely lacking today over large areas of government?

DR. BRITTAIN: That is lacking almost entirely in the municipal field. In the municipal field, as I say, they usually keep them long after they are appointed, but they are not appointed for merit, very rarely they are appointed for merit. And there is no system set up and you can be sure if there is no system set up in order to insure that appointments will be made by merit, they won't be made by merit. As I said with regard to municipalities, if we could cut down the number of municipalities, coordinate municipalities, we could have a lot of full-time officials instead of part-time officials



and we could set up certain standards. One of the recommendations made in here, I am sorry I didn't include it in the memorandum, was that the provinces which have civil service commissions, and we hope they will all have them, will give to those commissions the right to establish standards for municipal officials. They have done something along that line in some of the Western provinces and in Quebec, and they have had in mind in several of the other provinces something like that. There might be grades established like there are for teachers, first, second and third grade. In the province of Quebec they have established lists for two or three grades of municipal auditors and two or three grades of assessors and for city clerks, and so on, putting the public service on a career basis. I think if that were done we would get very much better service and such people would be more apt to co-operate because they would know better what co-operation is. When you pay \$200 apiece for two assessors for a few weeks in the year you are losing your \$400, because all that can be done under those conditions is to write out the rolls that were there the year before, with all the errors in them. If you buy a jack-knife for twenty-five cents you have lost your twenty-five cents because your jack-knife is no good. And it is the same way very often in the public service. If you don't pay enough you don't get good enough service. I think we could cut down the number on the rolls very largely if all appointments were made and promotions were made from merit. It is the tendency, of course, in public affairs, to multiply the number of poorly paid officials. I think it is in the public interest to decrease as far as possible the number of poorly paid officials and increase the number of highly paid officials and require good workmen. I think that is the success of cooperation in Government.



THE CHAIRMAN: You speak of the very large number of governmental bodies and you think the greatest advance could be made on the municipal level, I take it, towards some reduction in the number of governmental bodies, or had you that in mind?

DR. BRITTAIN: Yes. For example, in the province of Ontario we have in many townships from twelve to twenty school districts. There is a law on the statute books which allows the combining of those into one, but there are only two or three that have ever adopted it, and they are in suburban districts, they are practically urban communities. Now, it not only affects the quality of the education but it affects the cost of education to have so many in one township and it is quite unnecessary, particularly in southern Ontario because transportation can easily be arranged for and transportation would be offered to the children all winter. I think there is more to be hoped for in that line than in the other. I am told in the Province of Alberta in some years they will only have fifty-five local authorities in the whole of Alberta for schools. I think something like that should be done in the Central provinces.

THE CHAIRMAN: How about the municipal authorities, are you prepared to express any opinion on it?

DR. BRITTAIN: Yes, I would say that the county either should be made stronger or it should be eliminated.

COMMISSIONER DAFOE: Then enlarge the municipality?

DR. BRITTAIN: And either enlarge the municipality and abolish the county or give the county enlarged powers where necessary and reduce the municipalities inside of it. I think finally the way will be found in the coordination of rural municipalities rather than in the building up of counties. But if a different line





had been taken, if the cat had jumped a little differently, we would probably have had increased counties. As you know, the province has assumed a large share of the cost of roads which formerly were very important for counties. I see no reason why the provinces of Canada, like the Western provinces, cannot do without counties if they effect amalgamation of municipalities comparable to counties in area. The objection to the county as I see it lies in this fact, and I have a very friendly feeling towards county councils, they are not on the same basis as the American counties which are many of them hot-beds of local politics, but from the fact that the people that are elected to the municipal councils owe their first loyalty to the local councils, and consequently they look upon the county council as a place in which they can sit and play poker for their different municipalities. If in the county the members of the county council were elected, instead of being the reeves or mayors, as the case may be in one of the provinces, if they were elected for the purpose to the Council, they would have a different view in regard to the county. If you could have a county with all the municipalities inside simply wards of the county or have them all elected at large, I don't suppose we would ever get to the place where people would be willing to abolish their local interests, but if they were elected by wards and called the present municipalities wards of the county, then perhaps they might have a county council. But you would have to leave out many large urban aggregations of population which are now inside the county.

COMMISSIONER DAFOE: To go back to the question of the small school district, the reason we have no municipal school boards in Manitoba, with one or two



exceptions, I mean country municipal boards, is because of the furious resistance of the small school districts to being merged.

DR.BRITTAIN: We have the same thing here.

COMMISSIONER DAFOE: I think in Manitoba there is an over-riding power, that the legislature exercises an over-riding power.

DR.BRITTAIN: Of course the legislature, if it wanted to, could exercise an over-riding power in any of the provinces because the municipalities and school districts are creatures of the province. It is a question of local pressure. In Alberta conditions were somewhat different, and they are able to do things this year they were not able to do before. But in the West conditions have never been like they have been in the middle western states of the United States or in Ontario. In one middle western state that I know of they had what they called special school districts and for a long time I did not know what that meant, but most of the special school districts were formed by a group of farmers whose children had grown up and they didn't want to pay any school taxes or only wanted to pay very small school taxes, so they got put in a special district where there would be no school or only a very small school.

THE CHAIRMAN: There are some places worse than that, are there not?

DR.BRITTAIN: Yes, a lot worse. I think the worst thing in Canada as a whole is the number of school authorities.

COMMISSIONER MacKAY: Have you any views, Doctor Brittain, on the question of independently elected school boards, do they tend to increase the expenses of education in proportion to the other expenditures of the community? I should not say independently elected but indopendently



appointed school boards.

DR. BRITTAIN: They are mostly independently elected of course. I have observed both the independently elected and independently appointed. I prefer the independently elected to the independently appointed. I do not think the appointment of the school boards would help very much, but as long as we have the Separate Schools in the provinces which have Separate Schools it will be quite impossible to have any other system than that of elected school boards in my judgment. There is a certain drawback in connection with elected school boards, it is very difficult to bring about co-ordination in local budget making. Even in Ohio where they have not Separate Schools they found it very difficult, all the cities are in the county over there, inside of the county there would be dozens of municipalities and more than dozens of school districts, and they found overlapping and the plight of the taxpayer was very bad. And so they appointed a budget committee inside of each county, which more or less went over the budgets.

Now, I think the time will come, even in the provinces which have separate schools and public schools when there will have to be some co-ordinating body from a financial standpoint, which will co-ordinate the expenditures or the finances of the municipality and the school districts. There will have to be a much greater spirit of co-operation between elected bodies, one elected for education and the other for other local purposes. There has been a great deal more co-operation than people give credit for. There has been a tremendous amount of co-operation as you can see by these figures between the school authorities and the municipal authorities and there could be a tremendous amount more without any change in the system whatever, but if it is necessary there will have to be a change in the system.





THE CHAIRMAN: Mr. St. Laurent, have you any questions?

MR. ST. LAURENT: There are just three or four questions, Dr. Brittain. I understood you to say at the outset that the suggestion that there was perhaps 10% of the wage earners of Canada who were engaged in the business of government for remuneration was large?

DR. BRITTAIN: Yes.

MR. ST. LAURENT: Probably exaggerated. Has your institute any figures of the actual number of full-time officials?

DR. BRITTAIN: I didn't bring them with me, but I think it was about 275,000. It was less than 10% of those gainfully employed. And that is what those persons should have said, not the population.

MR. ST. LAURENT: Yes, about 10% of those gainfully employed.

DR. BRITTAIN: Yes, or less than 10%.

MR. ST. LAURENT: Probably less, but the gainfully employed would be, I suppose, roughly something between one and three and one in four of the population.

DR. BRITTAIN: I think it is about 3,100,000, something over 3,000,000.

MR. ST. LAURENT: Did this number of 275,000 represent those employed in the operation of the Canadian National Railway system?

DR. BRITTAIN: Yes, it did.

MR. ST. LAURENT: It includes them?

DR. BRITTAIN: Yes, in all governmental, 275,000, including all the employees in governmental bodies, but it does not include in the municipality, because we could not find how many were employed.

MR. ST. LAURENT: Yes.



DR. BRITTAIN: It might very well run up to 300,000.

MR. ST. LAURENT: On page 57 there is a statement that the amount paid out for services is estimated to be about \$275,000,000.

DR. BRITTAIN: Yes.

MR. ST. LAURENT: Would that include the services rendered by those engaged in the operation of the Canadian National Railway system?

DR. BRITTAIN: No. You see, we didn't put the 275,000 number of employees down here, not on the same basis. That \$275,000,000 is, I think, just what was paid out of the amounts here that are put down for Government expenditures.

MR. ST. LAURENT: That being so has the institute a figure that would enable them to say of the 275,000 roughly, including those engaged in operating the Canadian National Railways, how many would be on regular government service and how many of the 275,000 in the railway service?

DR. BRITTAIN: I should say perhaps 190,000 or 200,000.

MR. ST. LAURENT: From 190 to 200,000 in the regular Government service.

DR. BRITTAIN: Yes.

MR. ST. LAURENT: Will you turn to pages 11 and 12, there is something there which is not quite clear to me. Page 11 is the table showing the total Dominion Debenture guaranteed and floating debt, less sinking fund.

DR. BRITTAIN: Yes.

MR. ST. LAURENT: And the total in 1935 is roughly four and a half billions.

DR. BRITTAIN: Yes.

MR. ST. LAURENT: And in 1929, 3,065,162,181.

DR. BRITTAIN: Yes.

MR. ST. LAURENT: A difference of 1,425,000,000.



On page 12 there is an indication of some portion of the increase in the public debt for railway and steamship deficits, \$309,000,000, unemployment relief 217,000,000 or in all, \$526,000,000.

DR. BRITAIN: Yes.

MR. ST. LAURENT: That would leave almost 900,000,000 of the increase from 1929 to 1935 to be accounted for otherwise.

DR. BRITAIN: Yes, it would be accounted for otherwise. Those things would have to be included of course. And there was three quarters of a billion in there would have to be put in for deficits.

MR. ST. LAURENT: Yes, but do not those deficits include the railway deficits?

DR. BRITAIN: Oh yes.

MR. ST. LAURENT: And the unemployment relief?

DR. BRITAIN: Yes, but there might be deficits outside of those. Very often there are deficits outside of those.

MR. ST. LAURENT: Yes.

DR. BRITAIN: In addition to those. That is, those two together are not enough to account for the whole deficit. And then there are payments on the debt in between. You know, there are payments on the debt in between by municipalities, for example, there is --

MR. ST. LAURENT: Yes, but I understand these pages 11 and 12 deal only with the Federal situation?

DR. BRITAIN: The Dominion, that is right.

MR. ST. LAURENT: And though there was a decrease from 1922, or '23 rather, to 1929, of some \$20,000,000, over the next six or seven year period there has been an increase of a billion and a half?

DR. BRITAIN: Yes.

MR. ST. LAURENT: Of which \$900,000,000 is not





accounted for by the railway or by unemployment insurance?

DR. BRITTAIN: Well, I have not gone into the details, I don't know how it is made up, but your reasoning is correct so far as I can see.

THE CHAIRMAN: Mr. St. Laurent, would not part of it be the item excluded from the railway and steamship deficits, namely, interest on Dominion advances to the railway?

MR. ST. LAURENT: Interest on Dominion advances would account, I assume, for a portion of it, but part of the interest should be re-payable to the Dominion Government.

THE CHAIRMAN: Yes.

MR. ST. LAURENT: Then I understood you to comment on the fact that there had been some reduction in the good years but that that reduction might have been more substantial had there been no corresponding reduction in taxation during those years.

DR. BRITTAIN: Or less corresponding reduction.

MR. ST. LAURENT: Or less corresponding reduction. But as a matter of fact, though, there may have been some reduction in rates. The amounts raised were not less during those years than they were prior thereto or afterwards. Page 27. If we look at the table on page 11 we find that the first year in which there was a decrease at all is between 1923 and '24.

DR. BRITTAIN: Yes.

MR. ST. LAURENT: I took 1921, '22, and '23 together in the table on page 27 and I got \$1,198,000,000.

DR. BRITTAIN: Yes.

MR. ST. LAURENT: Then, taking '24, '25 and '26 together, \$1,130,000,000. Taking '27, '28 and '29 together \$1,331,000,000. There was, I remember, some reduction in the rate, for instance of income tax during



that period, but the total revenue ---

DR. BRITAIN: Didn't decline?

MR. ST. LAURENT: Didn't decline.

DR. BRITAIN: No, that is right, but they may have been kept up.

MR. ST. LAURENT: By keeping the rates up.

DR. BRITAIN: Yes. The country can bear a heavier rate in good years than it can in bad years. The point is why cut the heavy rates when they can stand the heavy rates, and then put on the heavy rates when they cannot stand the heavy rates?

MR. ST. LAURENT: I would not like to offer an answer because I am afraid it would not be respectful to those who make the change. Has the institute made any calculation of what the additional revenue would have amounted to had the rates not been changed during that period?

DR. BRITAIN: No, it would be hard to do that. It would be hard to do; that would be only a guess, not an estimate, as to the amount or the effect it would have had.

MR. ST. LAURENT: I suppose it might be affected by the basis upon which the rates were raised?

DR. BRITAIN: Yes, where a tax<sup>is</sup> on real estate you could easily estimate, or even an income tax, but when it is a duty it is almost impossible.

MR. ST. LAURENT: Yes, you cannot tell how much would have come in and paid the duty at a higher rate.

DR. BRITAIN: But I have no doubt, take the tax that I mentioned before, a tax on amusements, - that is what I refer to, a tax like that, particularly referring to where they gave them up. Why not keep them on for a while until you build up a reserve?

COMMISSIONER ANGUS: You did suggest that a tax

•

1

of that kind might sometimes be transferred to another authority.

DR. BRITTAIN: Yes.

COMMISSIONER ANGUS: Arising out of that is it not very difficult to get it back again when the depression comes?

DR. BRITTAIN: Much harder to get it when you want it. It is easier to keep right than to get right.

COMMISSIONER ANGUS: Is it not possible there is reason for not giving it unless it could be given in perpetuity?

DR. BRITTAIN: If they keep it themselves I would have no objection to it whatever, but to give it up entirely when the municipalities need it, why should it be given up? That is what I cannot understand.

COMMISSIONER DAFOE: The opinion was expressed to us in one of the Western provinces by a cabinet minister that the appearance of a surplus was the signal for pressure for large expenditures that Governments could not refuse.

DR. BRITTAIN: I think that would be a good reason for paying all revenues out in reduction of debt and have no money and that is the reason I said here that building up reserves for unemployment relief should not be in the form of money but should be in the form of a credit pool. If it is in the form of a credit pool nobody could draw it until the time came to use it and pressure cannot be brought to bear ---

COMMISSIONER DAFOE: Except they might be objecting to it being applied in reduction of debt because there was a more preferable method of spending it from their point of view.

DR. BRITTAIN: I am afraid there is a lot in that, but I would get rid of it as quickly as I could if I was.





the government.

MR. ST. LAURENT: There is one thing I would like to ask you about the table on page 49. That makes it quite clear that from 1922 to 1935 the net expenditure per capita on education has decreased.

DR. BRITTAIN: Yes.

MR. ST. LAURENT: 11.96 and 10.86, while there has been a very considerable increase in the expenditure on public welfare. Might it not be so that some of the things formerly taken care of by educational funds have been transferred to the welfare services?

DR. BRITTAIN: That might be. For example there was a case in Toronto, they used to have a department for medical inspection of school children and it was transferred to the city council.

MR. ST. LAURENT: And there might be formerly some educational facilities for backward children that have been taken out of the education function and put in the public welfare.

DR. BRITTAIN: There have not been many cases like that. There have been cases where that has happened but that has been more than counterbalanced by setting up special schools. That is, even though the province takes children away from Toronto to Orillia, the city of Toronto quite properly, I think, is building up a set of schools for all sorts of special cases.

MR. ST. LAURENT: But it is so, is it not, that there has been some transferring from the local educational boards to the provincial institutions?

DR. BRITTAIN: I think that is so, but here health is included in public welfare, whether it is operated by the school board or whether it is operated by the city.



MR. ST. LAURENT: But that might account for some small proportion of the diminution?

DR. BRITTAIN: Yes, it might.

MR. ST. LAURENT: Now, there was another thing that interested me very much and it was that statement about the statute concerning the assessment of real estate in Ontario, and the provision that the buildings were to be assessed separately and only at such amounts as would represent what they add to the value of the land.

DR. BRITTAIN: Yes.

MR. ST. LAURENT: Does that go back any considerable time?

DR. BRITTAIN: Yes, that has been there for a long time.

MR. ST. LAURENT: Well, didn't we read, though, a few years ago that notwithstanding that there were some buildings that were being torn down in Toronto to avoid taxes on them?

DR. BRITTAIN: There were taxes on the land, you see.

MR. ST. LAURENT: Yes, but the taxes would remain on the land?

DR. BRITTAIN: Yes, but I don't suppose that the taxes on the buildings were very great, but if they were then it was an atrocious thing in my judgment.

MR. ST. LAURENT: But it seems to me that I had the impression that in Toronto, as well as in some of our Quebec cities, buildings were torn down because they were not producing revenue, and for the purpose of decreasing the taxes.

DR. BRITTAIN: I think that is right.

MR. ST. LAURENT: If that suggested rule had been properly applied it would not have been necessary to do that.



DR. BRITTAIN: That is what I think. I think that not only in Ontario but all through Canada where they did not have this provision a great deal might have been done to save property to the owner.

MR. ST. LAURENT: And that provision if properly applied would mean that a building which does not add anything to the land would not bear any proportion of the municipal assessment.

DR. BRITTAIN: If necessary I think the law should be clarified to that effect.

COMMISSIONER MacKAY: In this debt picture you presented to us you make no distinction between debt contracted for capital assets which may be revenue-producing, such as for example the Ontario Hydro Electric System. Have you any figures on that?

DR. BRITTAIN: Not here, but I have in the office. I could give you that if you wanted it. The reason I didn't show it here is because I felt that I wanted the debt in all the burdens and potential burdens. If any public utility fails of course the municipality or the province in general is responsible, and the credit of the municipality, the ease with which it can borrow money, depends not only on its regular debt but on the whole amount of its debt.

COMMISSIONER MacKAY: You have a figure for that of the municipalities, have you not?

DR. BRITTAIN: No.

THE CHAIRMAN: It would be interesting I think if you could let us have that.

DR. BRITTAIN: All right.

THE CHAIRMAN: To show what the public utility burdens are within the municipalities.

DR. BRITTAIN: I think we have that for all levels





of government. I think it will be difficult to make it complete for the municipalities because some of the revenue for waterworks goes into the general picture of the city.

THE CHAIRMAN: I suppose waterworks is such an essential part of municipal life one does not actually look upon it as a public utility in the same way as one looks upon a street railway or a Hydro Electric plant.

DR. BRITTAIN: I have no doubt that the post office was looked upon as a public utility. As a matter of fact they are all public utilities, the only difference is that one is run as a business and the other should be, but is not.

COMMISSIONER DAFOE : You give some figures in table 7 about Public Utilities, page 17.

THE CHAIRMAN: Yes, there are public utilities, it gives the net general debt and the net public utility debt. That is in the municipal field only.

COMMISSIONER MacKAY: What do you mean by public utilities there?

DR. BRITTAIN: I have put all waterworks, transportation systems, hydro, all power systems.

COMMISSIONER MacKAY: Anything that is revenue producing.

DR. BRITTAIN: Anything that is revenue producing the cost of which is supposed to be defrayed out of its own revenue.

THE CHAIRMAN: Thank you, Dr. Brittain, it is a very interesting presentation you have made, and we thank you and the Research Institute for presenting the brief to us.

DR. BRITTAIN: Thank you very much, sir.

THE CHAIRMAN: It is now past one o'clock and we will adjourn until two-thirty.



## AFTERNOON SESSION

The Commission resumed at 2.30 p.m.

THE CHAIRMAN: I do not think the brief of the Citizens' Research Institute was marked as an exhibit.

MR. FOWLER: It will be number 267, I think, sir.

THE CHAIRMAN: Yes, and then the summary might be marked as exhibit number 267 A.

EXHIBIT NO. 267: Brief of the Citizens' Research Institute.

EXHIBIT NO. 267 A: Summary of the Brief of the Citizens' Research Institute.

THE CHAIRMAN: The next brief to be heard is that of the Board of Trade of the City of Toronto. Colonel Marshall and Mr. Tolchard will present the brief.

## SUBMISSION BY THE

## BOARD OF TRADE OF THE CITY OF TORONTO

MR. MARSHALL: Mr. Chairman and Members of the Commission: The Board of Trade of the City of Toronto was organized in 1844 and incorporated by an Act of the Legislature of the late Province of Canada passed in the year 1845. Its primary object is to promote and/or support such measures as are deemed calculated to advance and render prosperous the lawful trade and commerce and to foster the economic and social welfare of the City of Toronto in particular and of the Province of Ontario and the Dominion of Canada in general. For over 94 years, the Board has striven to fulfil this object to the best of its ability.

The membership of the Board at this date stands at approximately 2,500 business and professional men engaged in all branches of trade and commerce, finance, and a number of the professions, the detailed classification of which will be found on page four of the Board's submission.

As the Toronto Region has been for many years the largest wholesale distributing centre of Canada and during more



recent years has assumed leadership in manufacturing, the membership of the Board of Trade, comprising as it does practically all concerns of standing in the community, has been engaged, since the inception of the organization, in inter-provincial trading as well as import and export trade extending to all the Provinces of Canada and practically all, if not all, of the countries of the world.

All of the members of the Board have had the opportunity of expressing their views upon the matters coming within the jurisdiction of the Royal Commission on Dominion-Provincial Relations and from the wealth of experience of its membership the Toronto Board of Trade has submitted in its brief views and recommendations with regard to a number of matters of interest principally to Canadian business from the national standpoint.

We have present, Mr. W. D. Tolchard, General Manager of the Board of Trade as well as members of the committee who assisted in the preparation of the brief, and who will be glad to reply to any questions which you may care to ask. May I introduce Mr. Tolchard.

MR. F. D. TOLCHARD, General Manager of the Toronto Board of Trade, was called.

MR. TOLCHARD: Mr. Chairman and members of the Commission: I wish to summarize the brief, but I think you will be able to follow my summarization in the main brief, as I go along.

In section one of its submission, the Board deals with public expenditures, revenues and debt at all levels of government which, it is stated, are of vital importance to privately conducted productive enterprises. It is shown the amount and form of public expenditures concern the business world even more than the types of taxation utilized to raise revenue to meet the expenditure and that,





so far as burden on business and industry is concerned, it is immaterial whether taxation and charge for services are local, provincial or federal. The statistical table on page eight indicates that Toronto expenditures on the per capita basis have increased during the period 1922--1935 almost twice as fast as those of the Dominion and that Ontario expenditures almost nine times as fast. The growth of the combined per capita provincial and municipal expenditures has been ten times faster than the growth of the Dominion expenditures.

THE CHAIRMAN: Just a moment, until I follow this.

MR. TOLCHARD: All public expenditures have to be made out of the avails of business, industry and professional and technical services, and must be paid by business and industry directly or by those who draw their income from business and industry. Insofar as public expenditures facilitate business and industry they constitute no burden and do not add to the cost of living. Insofar, however, as they do not add to the efficiency of business and industry and exact from taxpayers unnecessary costs or costs of services which taxpayers cannot afford, they handicap business and industry not only by adding to the overhead, but by leaving in the hands of citizens a lessened amount to spend on the services and products of business and industry.

It will be noted from the statistical table on page eleven that the total net per capita public revenue in which the citizens of Toronto are particularly interested has not increased greatly since 1921--22 but that the part contributed by taxation has increased faster. There was a drop in per capita total revenue at the bottom of the depression, but there was no corresponding drop in per capita taxation. The slowing up in 1933-34



of the rate of increase in per capita taxation was followed by a rapid increase in the next two-year period.

THE CHAIRMAN: I think it would make the official record more clear if you would illustrate by giving the figures from your schedule here.

MR. TOLCHARD: On page eleven, you will note that the Dominion per capita public revenue decreased 25.35 per cent, Ontario's increased 89.03 per cent and the City of Toronto's increased 15.43 per cent. The total per capita increase was 4.15 per cent. The total per capita net tax increase was 7.80 per cent.

In 1921-22, so far as the interest of Toronto citizens and their business and industry were directly concerned, there was a balance between public revenue and public expenditure. In every one of the selected years since, expenditures have exceeded revenues, and the tendency toward unbalance between 1930 and 1936 was progressively accentuated. The table on page 14 illustrates these facts.

You will notice in this table that the per capita net revenue in 1921-22 was \$103.25, while in 1935-36 it was \$107.54. The per capita expenditure in 1921-22 was \$101.38, while in 1935-36 it was \$128.59. A later item included direct unemployment relief whether funded or not. The excess in 1921-22 was \$1.87. In 1935-36 there was a deficiency of \$21.05. This is on the basis of the population within each jurisdiction. Now, the amount passed on to future Toronto citizens, business and industry, to be paid out of taxation in future years--in 1921-22 there was an excess of \$989,632.00, but in the year 1935-36 there was a deficiency of \$13,435,304.00.

THE CHAIRMAN: That was the deficiency between income and expenditure in Toronto in the year 1935-36?

MR. TOLCHARD: With your permission, I would ask



Dr. Brittain if he would answer these questions.

DR. BRITTAIN: These per capita are based upon the per capita expenditure of the Dominion, the per capita expenditure of Ontario, and the per capita expenditure of Toronto added together. The reason for that being that the citizens of Toronto have to bear their share of the three governments. The theory was that while more revenue was probably collected in Toronto than in 1903 and 1907, in the first instance, we supposed that it spread itself pretty well over the Dominion. With regard to the province's burden--as it affected business in Toronto and the people employed in business in Toronto, these people are interested in the costs and revenue of the Dominion, the costs and revenue of the provincial government, as well as the costs and revenue of the municipal government. These three are added together as it is the combined condition of the three in which the people of Toronto are interested. On page fifteen, there is a table dealing with public debt. This is dealt with in the same way. The per capita Dominion debt, the per capita Ontario debt, and the per capita Toronto debt are added together in order to show the per capita burden of public debt on industry and business in Toronto and the people who are engaged in business and industry. You will notice that there has been an increase in the per capita debt so far as Toronto is concerned. Toronto, Ontario and the Dominion had a total increase in public debt of 34.45 per cent, while Ontario and Toronto combined had an increase of 49.24 per cent.

COMMISSIONER DAFOE: That is since 1921, is it not?

DR. BRITTAIN: Since 1921-22, yes.

THE CHAIRMAN: Then, the per capita debt of Toronto







that is the combined debt of the Dominion, Ontario and Toronto is \$922.83.

DR. BRITTAIN: Yes, that is it. The debt charges are treated in the same way. Debt charges in which the citizens of Toronto are interested have risen from \$33.86 in 1921-22 to \$43.31 in 1933-34. Insofar as Ontario and Toronto are concerned, the debt charges have risen from \$14.03 in 1921-22 to \$24.76 in 1935-36. There has been a greater increase in Toronto than in the Dominion, and Ontario and Toronto combined are not in excess of the Dominion.

THE CHAIRMAN: I suppose this springs largely out of the unemployment relief, or is it due to other causes?

DR. BRITTAIN: In Toronto, I suppose there is an element of unemployment relief, but in any city it would not make very much difference in the percentage, I think.

MR. TOLCHARD: Continuing on page 17 of the main brief, I read:

"An examination of the revenue, expenditure and debt figures indicates that local government--provincial and municipal--has experienced greater difficulty in increasing revenues and controlling expenditures than has government on the national level. The almost total lack of elasticity in municipal revenues is well-known. An examination of municipal expenditures for the last thirty years tends to show that the nearer to the citizen the expenditure, the greater the possibility and probability of actual control. One would therefore almost expect, other things being equal, that increase in local taxation, local expenditure and local debt on the per capita basis, would compare favourably with those in the Dominion field. Apparently other



things are not equal and there is a possibility if not a strong probability that the revenue structure and the service requirements at the various levels of government should be subject to a searching inquiry as to their adequacy and fitness, granted, of course, that the efficiency of the public services are comparable throughout.

It is sometimes said, "Yes, there are heavy expenditures, but what concrete steps can be taken to reduce expenditures?" The recent submission of Mr. C. F. Elliott, Dominion Commissioner of Income Tax, before your honourable body, shows what can be saved in combining overheads. What has been done for Ontario, and what is in process of being done for Manitoba and Prince Edward Island can be done for all the provinces levying an income tax and possibly all cities having income taxes in provinces which themselves have no income tax. The coordination of provincial police with Dominion police in Nova Scotia, New Brunswick, Prince Edward Island, Manitoba, Alberta and Saskatchewan, with a saving on the whole of about one-third, shows what can be done in the police field. Coordination of Dominion and provincial audit in connection with the taxes on the transfer of securities should cut overhead costs both of the governments and the business houses concerned. Known opportunities for savings may be only a small part of those which might be effected. The people have a right to know that so far as possible all services for which they pay are produced at the lowest possible cost.

Apart from indicating particular examples of waste as above, apparent to everyone, and remedies



" that have, or can, be applied to them, it is impossible for one on the outside of government to answer categorically the question of what can be done to reduce expenditures. Only those responsible for administration on the inside for a term of years or those who have been or may be given an opportunity, with adequate authority and the necessary facilities, to observe and study at all levels of government, the methods of departmentalization and of operation within departments could give a complete answer. Moreover, conditions are continually changing so that the answer would have to be continuous, or it would soon become out-of-date.

In attacking the problem of controlling governmental costs, it is necessary to consider in detail the elements of cost such as salaries and wages, supplies and equipment, repairs, debt charges, etc. None of these may safely be left out of consideration at any level of government. Manifestly this is a retail rather than a wholesale operation. In other words, the governmental suit to fit properly the needs of taxpayers and the productive activities in which they are engaged, must be custom made and not ready made. For example, the cost of the personnel of the Toronto municipal government is on the average probably about 45 per cent of the total cost; the cost of the personnel of the Government of Ontario is, say, about 20 per cent of the total, and the cost of the personnel of the national government is 25 per cent of the total. For a citizen of Toronto public per capita expenditures at all levels of government are made up of about 34 per cent salaries, wages and other payments for personnel, almost 32 per





"cent debt charges and about 34 per cent supplies, equipment, contractual services, etc. Taking the country as a whole the governmental expenditure, not including that of governmentally owned public utilities but only their deficits, was about 30 per cent salaries, 30 per cent debt charges and 40 per cent supplies, equipment and contractual services, etc. The amount of the second and third elements of cost in government depends largely on the efficiency of governmental personnel. Even the amount of annual debt charges may embalm mistakes or inefficiency or the opposite of officials past or present. Government is an operation carried on by persons and depends for its efficiency and economy on the skill, professional spirit and devotion to duty of the personnel of government at all levels.

No municipalities in Ontario, so far as this Board has knowledge, have civil service commissions, and while the standard of efficiency is comparatively high, it would seem that something worth while could be done in cooperation between the province and the municipalities in establishing minimum requirements of training and professional attainments for important municipal offices, such as treasurer, clerk, purchasing agent, auditor and assessor, and of promoting the merit principle in appointment and promotion in the municipal service. In departments like the law department, the health department and the engineering department, professional standards in law, medicine and engineering take care of the situation fairly well. The province in effect already establishes eligible lists from



"which teachers and school inspectors may be appointed by local authorities. Possibly the province might establish a Civil Service Commission with jurisdiction solely to set standards and methods of appointment and promotion in the municipal as well as in the provincial service.

Inasmuch as business and industry are more vitally interested in the efficiency and economy of government as a whole than even in the forms of taxation and the financial relation between governments at different levels, the Board respectfully submits that even if Dominion-Provincial relations may be treated apart from detailed costs of government at the various levels and must be so treated by your honourable body, in the last analysis governmental administration in Canada cannot receive the consideration that is required in the interests of taxpayers and productive undertakings unless searching, detailed, cooperative and continuous inquiries are instituted at all governmental levels as to departmental organization and methods, personnel administration, purchasing, etc. The Board respectfully suggests to your honourable body that if it meets with your judgment, you bring this in your report to the attention of the authorities concerned and to the general Canadian public who maintain for their own purposes, governmental establishments, national, provincial and municipal. The Board believes that a full consideration of the relations between the Dominion and its provinces with their municipalities requires an adequate picture of the financial set-ups and administrative efficiency at all levels of government."



THE CHAIRMAN: Might I ask--perhaps Dr. Brittain could answer it--what information you have as to the general efficiency of municipal administration or inefficiency? Is there any general information concerning that matter? We know more about the Dominion and provincial administration, in one sense, because these administrations are centralized, one in Toronto and one in Ottawa.

DR. BRITTAIN: I would say that the necessity for establishing a bureau in the municipalities has come to be widely recognized. We now have a Department of Municipal Administration in our provincial governments. This department is establishing standards and in one or two cases has actually established standards. In Quebec this department has actually established standards for municipal auditors. No one can be a municipal auditor in the province of Quebec unless that person is able to measure up to certain set standards. These standards are graded for the different municipalities. In other provinces the clerks and treasurers have to measure up to set standards. I do not see any reason why most of the chief officials in the province should not be required to come up to certain standards.

THE CHAIRMAN: Are the different departments of municipal administration in the province working on this problem now?

DR. BRITTAIN: I think so. The departments have been working on the assessment problem for a long time. I do not think there has been an attempt made in Ontario, but it is being considered. At least fifteen years ago, it was recommended that the provincial governments appoint an inspector of assessors. It is my belief that more than that should be done. Treasurers could be helped





by the provincial department as well as assessors. The assessors have a very difficult task and it is most difficult for any one not properly trained to undertake the work. Usually someone from the clerical staff is given this position and the result is that a great deal of training is needed. I believe the assessor in our municipalities and the treasurer in the rural municipalities need more help than any other officials. The treasurers are getting some help, but I do not think the assessors have received any so far.

MR. TOLCHARD: I continue reading from the brief at page 21, dealing with the question of grants-in-aid.

I quote:

"It would probably be an ideal arrangement, if it were practicable, if each level of government made its expenditures out of revenue collected by itself. Unfortunately it appears that functions which in the public interest should be administered at one level may cost much more than in the public interest could be collected at that level. A system of grants-in-aid from one level to another would seem to be a necessary feature of modern government where there are two or more levels of government. It is, of course, obvious, that grants-in-aid should be so made as to meet completely the revenue necessities of the case, without weakening the sense of responsibility of the recipient government. If inadequate and given in such a way as to undermine feeling of responsibility, it is analogous to the "dole", and in effect a grant-in-aid may become a dole of one level of government to another. The collection by one authority of a tax for another authority and the turning over of the resulting



"revenues, of course, does not involve a grant-in-aid and is not subject to the same dangers as grants-in-aid. The payment of a province to the Dominion for the cost of police services is not in the nature of a grant-in-aid, but it is a payment at cost for services rendered.

The provincial subsidies as a whole are not typical grants-in-aid from the historical standpoint. Insofar as they are not strictly quid pro quo payments they are in all essentials grants-in aid.

The former Dominion grants to the provinces for technical education, the Dominion subventions to the provinces on account of unemployment relief, and the provincial grants to school boards and to teachers are important examples of grants-in-aid."

I return now to the reading of my summary.

"If subventions are to be given from the Dominion to the provinces on the basis of need, the amount of the need in each case will have to be decided by an impartial authority on some pre-arranged concrete basis of calculation which will produce results more or less approximating the need. It is obvious that the per capita basis is inadequate. The division of relief and other costs on the percentage basis as between the Dominion, the provinces and the municipalities is thoroughly unsound and vicious. It constitutes an invitation to waste and inefficiency. Grants from one governing body to another on the basis of the expenditure of the latter are susceptible to improper use. If they may induce virtue they may also induce extravagance.



"If objective bases of subvention and grants-in-aid which will result in substantial justice are not developed, grants-in-aid may, instead of spreading necessary costs according to ability, spread waste, extravagance and inefficient administration according to ability, spread waste, extravagance and inefficient administration according to diplomatic ability far beyond the limits of ability to pay.

#### Public Accounts

The Board recommends the adoption by governments of sound accounting principles, standardization of governmental financial statements and uniformity of definition of the classifications and terms used. This is for the reason that citizens do not know what each of their governments are doing and how their finances compare with those of previous years and those of comparable governments. Contradictory statements are bandied about as to whether public debts have increased or decreased during a year and whether surpluses are not really deficits. As a result there is a scepticism about governmental finance which will produce in time, if it has not already done so, an indifference to it.

This situation is in striking contrast to the public's acceptance of the annual statements of business and industry. It is felt that two factors are primarily responsible for the present attitude towards governmental accounting, namely,

1--The lack of a standardized accounting method based on generally accepted accounting principles;

2--The failure to place the accounts on an accrual basis instead of a cash basis.

A standardized accounting technique for the various governments in Canada is admittedly not com-





"to attain. There are now, however, definitely accepted accounting principles which are used to determine the revenue, expenditures, assets and liabilities of any business. These accounting principles form the basis of financial statements of business but they do not always appear to have been incorporated in governmental statements nor are governmental statements always prepared in comparable form. Improvement has been made in the municipal field in Ontario and, it is believed, in some other provinces. In contrast, however, to the generally accepted and readily understandable forms of statements now used by business, the accounts and statements presented by governments are both antiquated in form and difficult of interpretation.

#### Reduction in Number and Coordination of Governing Bodies

The extent of over-government and the number of governing bodies in Canada having authority to expend public funds is well known and need no elaboration. The Toronto Board of Trade is of the opinion that many of the services of existing governing bodies are of such a nature that they can be operated more efficiently and economically in a large unit than in a small unit. Also multiplicity of overheads and overlapping of services are adding no small amount to the cost of government.

The Board believes there is an urgent need to see that the functions of local governing bodies be definitely established, that overlapping be avoided, that our system of government be simplified and modified and that the cost be reduced wherever possible. The Board urges upon the Commission the need for such action, and that it should recommend



"steps calculated to bring about these reforms."

THE CHAIRMAN: Has your board considered where these enlarged areas of local government should be created or how they should be created?

MR. TOLCHARD: I think we would agree very largely with what Dr. Brittain said this morning. It is in the local or municipal field rather than the other fields in which these should be created.

Section 2 deals with the Railway problem, and it is found on page 27 of the Board's main brief. In the summary, I state that:

"Whether or not railway deficits could be avoided and the resultant savings made available to assist the Dominion in meeting any further financial commitments which it may feel it should assume as a result of this present inquiry and the desire expressed in many submissions that the Dominion assume responsibility for additional services, the drain of the railway deficits on the Dominion's financial resources, the Toronto Board of Trade feels, must be taken into consideration in any re-examination of the economic and financial basis of Confederation and the distribution of legislative powers in the light of economic and social developments since Confederation.

The experience under the plan of coordination and cooperation as adopted and put into practice by the Federal Parliament is now of sufficient duration and of such nature as to impel reaching the conclusion not only that it has not solved, but also that it will not solve, the Railway Problem.

The Board is accordingly of the opinion that there is a vital need for further consideration



"being given to the proposals made to the Duff Commission and any other proposals from responsible sources and to examine further all potentialities for effecting economies in the operation of the National System which would reduce the present severe drain upon the tax payers of the Dominion resulting from the annual deficits of the Canadian National Railways.

Since the Board's submission to your Commission was prepared the Senate has named a committee to review this problem much along the lines suggested. While it is hoped your honourable Commission will not lose sight of the question but take such steps as may be possible to find a solution, this Board is content, for the present at least, to await the results of the Senate Committee investigation.

#### National Business in Canada.

Under the heading of "National Business in Canada" the Board points out in Section III of its submission that "one of the greatest problems faced by any business which operates inter-provincially is meeting the taxation and complying with the legislation and regulations of the Dominion government and provincial governments up to nine in number. The taxation, laws and regulations of our ten major governments, applicable to business, are marked by a lack of coordination, a lack of uniformity, and unfortunately, in some cases by a positive discrimination that hampers seriously the efficient operation of interprovincial trade to the detriment of the whole economic life of Canada. The adverse result is wholly out of proportion to any increase in governmental revenues from duplicate, overlapping, etc., taxes and is not accompanied by any





"improvement in the quality of business regulation. Business is not given the conditions which make it possible for it to make its maximum contribution to our national life, a contribution which the Board believes to be a material factor in the solution of many of the problems the Royal Commission is examining."

#### Duplicate and Overlapping Taxes

Duplication and overlapping of taxes on business occurs chiefly in corporation taxes and exists as between the Dominion and provinces and as between the provinces themselves. Examples of difficulties in this connection are given on page 30 and 31 and also have been placed before your Commission in detail by other organizations."

Examples of the difficulties in this connection are given on pages 30 and 31 of the main brief. You will notice that at the foot of page 30 and on page 31, we have outlined some of these difficulties.

THE CHAIRMAN: You might just read that so we will have it in mind.

MR. TOLCHARD: Reading from the brief at page 30, I quote:

#### Duplication and Overlapping Taxes

"Duplication and overlapping of taxes on business occurs chiefly in corporation taxes and exists as between the Dominion and Provinces and as between the provinces themselves. The Dominion does not allow exemption of corporation income taxes paid the provinces in computing the amount subject to the Dominion corporation income tax, nor do the provinces (excepting Manitoba), which levy income taxes on corporations, allow exemption of income tax paid to the Dominion in computing the amount subject to their corporation



"income taxes. The hardship to corporate business can be appreciated when attention is called to the Dominion rates of corporation income tax which are 15 per cent and 17 per cent (where parent and subsidiary companies file consolidated returns) and provincial rates which reach 5 per cent in the prairie provinces and may go as high as 10 per cent in British Columbia.

While in principle the provinces apportion among themselves corporation taxes on the basis of the relative portion of business transacted in each, in reality their bases of apportionment over-reach. As instances, the province of Ontario only allows exemption of taxes paid in other provinces at the Ontario rate, Ontario makes no allowance for the excess. On the other hand, if the rate in another province is lower than the Ontario rate, Ontario collects the difference between that Province's and the Ontario rate."

THE CHAIRMAN: Mr. Tolchard, could you expect Ontario to allow a higher exemption than the province's own rate? In places where this province's rate was 5 and another province's rate was 10, if Ontario allowed the exemption at 10, it might wipe out the entire tax in Ontario, might it not?

MR. TOLCHARD: I would ask Mr. Crysler to answer that question, if I may.

MR. CRYSLER: Mr. Chairman, I think our committee would thoroughly agree with your suggestion. The point the committee had in mind was that because of this arrangement we do not get the benefit of the lower rate when there is a lower rate in the other provinces, and we are always forced to pay the penalty of the higher rate. In that respect, there is duplication, and I think that is the point which the committee had in mind, sir.



MR. TOLCHARD: Do you wish me to continue with the reading of the brief, your Lordship.

THE CHAIRMAN: Yes, you may continue.

MR. TOLCHARD: Quoting:

"In quebec the whole paid-up capital is taxable subject to arbitrary reduction by order-in-council in the case of companies with head offices outside and doing business in Quebec and of companies with head office in, but having the greater part of their assets outside, Quebec. In some provinces the whole of the companies' capital is taxed notwithstanding that only part of the capital is employed in the province.

A more extended statement of instances of duplicate and overlapping corporation taxes, including duplication of taxation respecting dividend receipts, is found in the brief submitted by the Canadian Manufacturers' Association, Inc. For this reason it is not necessary to go further into details here. That Association states there are cases of companies being taxed on 150 per cent to 180 per cent of their capital. The experience of the members of the Board confirms this statement on the basis of treating capital as including permanent borrowings according to the Ontario and Quebec practice in corporation tax matters. If, however, corporation tax payments are related to only share capital proper, the percentages run a great deal higher, reaching as much as 390 per cent.

THE CHAIRMAN: Mr. Tolchard, if you leave out the debentures and take only the capital stock, does the aggregate tax imposed on a company operating throughout Canada--might it reach as high as a tax of 390 per cent imposed on its capital?





MR. TOLCHARD: Yes, sir, I believe that is correct.



MR. TOLCHARD: Reading from the brief:

"By parallel taxes we mean the concurrent taxing of the same subject matter by two or more jurisdictions where the revenues derived are used for different services."

Then at the foot of page 32 there is a summary of parallel taxation in the sales and income tax fields. Sales tax, Dominion of Canada, 8%; Province of Alberta, 2%, retail, although that was suspended by Order-in-Council as from September 1st, 1937; the Province of Saskatchewan 2%, retail; and the City of Montreal, 2% retail. On page 33 you will notice the income tax on the corporations; in the Province of Alberta, the Dominion rate 15%, and in all the provinces. In Alberta the Provincial rate is 5%; British Columbia, minimum of 2½% on gross revenue, maximum of 10% on profits; Manitoba, 5%; Ontario 1%; Quebec, 2½%; Saskatchewan 5%.

"In addition, the Provinces of Alberta, Ontario, Quebec, and Saskatchewan levy taxes on one or both of capital and place of business. Taxes on capital and place of business apply regardless of the existence of profits from which to pay them. This board believes such taxes are unsound and that consideration should be given to the advisability of abolishing them.

These taxes and their rates are, of course, well known. They are set out here because a summarized grouping is helpful to enable appreciation of the lack of uniformity in sales and income taxes and the unequal burden they impose on business and individuals in different sections of the country, a burden which it cannot be doubted does not permit successful business operations in some provinces, and so prevents business from making



"a full contribution to the economic life of those provinces. The fulfilment of that contribution will create an expansion and development of business and our great natural resources in which particular localities will be benefited directly by increased employment, infusion of life into their local economy and a widened tax base to enable them to meet financial obligations with less onerous rates of taxation. Also, wealth will be created for investors and the country at large."

THE CHAIRMAN: On page 34 you give the different rates.

MR. TOLCHARD: Page 34 is income tax on individuals, showing the Dominion tax and the surtax for the various provinces.

"The rates of corporation income taxes speak for themselves and are followed by the income tax on the income of individuals which is included here as the taxation to be borne by resident owners, officers and employees, is a powerful factor in determining the location of business enterprise. In Schedule 1 (that is at the end of the submission) there is shown a number of examples of the combined effect of the Dominion and Province of Ontario income taxes on different brackets of income both as to percentages and amounts. This schedule applies equally to other instances of parallel income taxes on the incomes of individuals subject to variations due to higher or lower provincial rates."

You will notice in that schedule that the combined federal and provincial income tax on taxable income of \$1,000, for instance, amounts to 4.45%, and then it increases until you get to \$500,000, of 63.73%.





"It will be observed that in Ontario income taxes absorb 63.77% of an income of \$500,000. The percentage becomes higher with larger incomes, and 74% is absorbed by income taxes in the case of an income of \$5,000,000. In Provinces where there is no deduction of Federal Income Tax in computing income subject to the Provincial Tax, income taxation is even more severe. For instance in Saskatchewan, the income tax on every \$1,000 taxable in the highest brackets under the combined Dominion and Provincial rates amounts to \$1,063."

THE CHAIRMAN: I think anyone who had that income would move out.

MR. TOLCHARD: There are some cases where they have moved out.

THE CHAIRMAN: Not out of Saskatchewan,?

MR. TOLCHARD: No Sir.

"It may be said by those holding a certain point of view that severe taxation of incomes in high or the highest brackets is not a subject which inspires any very great measure of sympathy. It cannot be overlooked, however, that the concentrations of wealth which produce such incomes provide for the area in which they are located widespread business and employment and are a valuable state asset in the form of a larger tax base for all forms of governmental revenue. Business can scarcely be expected to locate in areas where the tax toll is most severe.

We do not seek to plead a special case for tax relief to business. On the contrary business, while hoping for any gross tax relief which easier revenue requirements permit, is prepared to pay its full share of taxes. We only urge at this point a tax



"adjustment, levelling extremes and removing anomalies, which will place business on a uniformly intelligent basis of taxation and enable it to operate efficiently and profitably and make an increasing contribution to our national economy. This adjustment is urged particularly in those provinces where enlarged taxation resources are needed most urgently. The immense natural resources of those provinces guarantee an effective increase of wealth to them if, through adjustment of taxation and other policies, they creat confidence in the capacity of business to operate successfully within their borders.

In placing on record these views which are concerned essentially with long term aspects of financial policies, the Board is mindful of the immediate and pressing revenue needs of certain provinces. While some of them would find it difficult to meet their obligations and give up any revenues whatever, the amounts they derive now from parallel sales and income taxes are so small in relation to their general financial commitments that it seems regrettable the small revenue loss attendant on the moderation of the extremes we suggest, should prevent adoption of taxation policies which will be of substantial ultimate advantage. There is attached in Schedule 11 a summary of provincial income tax receipts in 1935, both as to corporations and individuals."

You will note there in British Columbia, Mar. 31st, 1936, the corporation and the company, including the railways, was \$1,866,145; Alberta, it goes down to the lowest, \$1,147,881; and Saskatchewan \$1,436,243; Manitoba \$1,344,276, and so on, the largest, of course, being the



Province of Ontario with \$7,604,285.

"The attention of the Commission is drawn to the comparatively small volumes received at present from these sources of revenue by the Western and Maritime provinces. With reference to the retail sales tax in Saskatchewan, it is understood it is estimated to produce \$2,000,000 annually.

The Board urges that the Royal Commission, in studying the financial aid needed by any of the provinces, take into consideration not only permanent adjustments but such temporary adjustments as are necessary to enable those provinces to moderate their taxes on sales and on income especially, to the average level in other provinces, in order that the provinces in financial difficulties may offer equal opportunities to business and through development of their internal economy find the solution of their fiscal problems to the greatest possible extent within themselves.

#### Retroactive and Double Taxation

There have been instances in recent years of taxation having a retroactive or double taxing effect. A number of examples occurring in the Dominion Income Tax and the Ontario Corporation Tax are cited in the Canadian Manufacturers' Association brief. This is an undesirable development from the point of view of business. In this day competitive conditions force large scale operations on extremely narrow margin. Any unforeseen cost factor imposed, particularly after the business turnover which should have met it, is a most disturbing factor and may well have serious adverse effects."

I have a statement here which is not in the submitted brief of some instances of retroactive and double taxes;





complained of by members of the board. For instance, in retroactive taxes, income, the several increases in income tax rates during recent years have been applied to fiscal periods closed at the time the increased rates were imposed. This applies generally in the Dominion, Provincial and Municipal Income Taxes.

THE CHAIRMAN: Mr. Tolchard, would that be for more than the then current year? I know at times acts are passed during a session of parliament, which makes them applicable to the income tax returns made that year. Of course, the returns on the year are made on the previous year's business. Does it go beyond that?

MR. WRIGHT: No, Sir, not beyond that.

MR. TOLCHARD: I will continue with this statement:

"Sales - Delayed audits have applied tax, penalties and interest back over lengthy periods in respect of mistakes made in good faith.

Business Taxes (Municipal) - These are imposed in one year for the previous year.

Arbitrary Valuations and Dumping Duty - Dumping duty has been applied several months after import despite the fact that documents were proper at the border and at the plant. Often the goods subject to the dump have been sold when imposed and consequently it cannot be included in their price."

THE CHAIRMAN: Is that a common thing? I should think that would be a very unusual thing.

MR. TOLCHARD: I could not say it is particularly common, Sir. We have had a number of complaints regarding it reported to us as a result of our questionnaire.

THE CHAIRMAN: The duty being paid on the basis asked by the Government and the goods being sold, and there is an additional duty imposed?

MR. TOLCHARD: Yes.



THE CHAIRMAN: Are there many illustrations of that, Mr. Wright?

MR. WRIGHT: Mr. Chairman, the frequency was during a period 3, 4, 5, or 6 years ago, at the time section 43 of the Customs Act was active and applied. Since the limitation of that section - I cannot tell you the date, three or four years ago, - there has not been the trouble, but there is very occasionally a point comes up even yet.

MR. TOLCHARD: Dealing on page 38 with the lack of finality in taxes and assessments:

"There is a general tendency for our taxing statutes to contain provisions enabling the administering authority to at any time re-open assessments and impose additional assessments for taxes, interest and penalties. Under such provisions, firms of bona fide intent frequently have had to meet additional tax demands as a result of an innocent mistake on their part, sometimes aggravated by delayed auditing on the part of the administering authority. The cost of going back over records for a number of years to provide the information required on re-opened assessments sometimes exceeds the amount of additional taxes paid. It is obvious that re-opening assessments is most disturbing to sound accounting practices. Apart from the financial factors of further taxes and the cost of dealing with re-opened assessments, their result is often to make inaccurate financial statements for past periods published in good faith. Also it makes it impossible to determine liabilities with finality. This creates a most awkward situation in financial operations which involve certificates on this point. In view of these considerations, the Board believes that the right of taxing authorities to re-open assessments



"should be strictly limited to cases in which fraudulent intent on the part of the taxpayer is clearly evident,"

THE CHAIRMAN: Mr. Tolchard, how would you find that out? Would it not be by an examination of the books, that fraud would be discovered?

MR. TOLCHARD: With your permission, I would ask Mr. Gordon to answer that question.

MR. GORDON: I think, Mr. Chairman, that what you suggest is quite right; that you cannot find out whether there is fraud unless the taxing authority has the right to go in and examine the books.

THE CHAIRMAN: Well, then, assuming that the right to re-open is allowed in cases of fraud, that would necessarily involve the right to examine, to ascertain if fraud had been committed.

MR. GORDON: Yes.

THE CHAIRMAN: Then how are you helped? Well, you would be helped in this, there would be no change unless there was proof of fraud.

MR. GORDON: There are cases, Mr. Chairman, of changes in the assessment. The assessment might be made and later changed due to difference of interpretation of ruling; not necessarily because the company or the individual had committed a fraudulent act in the way that the term was originally made up.

THE CHAIRMAN: Under the present practice they can go back ten or fifteen years. Do you know whether that is the provision in our income tax, similar to that in Great Britain and the United States, or are the authorities limited in their right to go back?

MR. TOLCHARD: We have no information on that, Sir.

"Lack of Uniformity in Returns, Laws, Regulations,





"And Multiplicity of Inspections

The Dominion and each of the Provinces require corporations to submit returns containing information upon which corporation taxes are assessed. There is almost every conceivable lack of uniformity in the information required in these returns with the result that separate accounting operations must be carried out and to some extent separate records must be maintained for each taxing jurisdiction at a very considerable cost to business.

Taxes in the form of levies on (a) net income, (b) gross income, (c) capital, (d) places of business, (e) sales, are imposed by the Dominion or at least one of the Provinces. Where the same form of taxation is imposed by more than one of these taxing authorities, fiscal periods vary, regulations for determining the amount taxable are not the same and statutory conditions determining liability for tax are far from uniform. After the returns have been made the inspectors of each authority must be satisfied. Without wearying you with repetition of details already placed before you, this subject forms an important part in the briefs of many business and other bodies which show it is causing a very considerable unnecessary expense and effort to both governments and taxpayers.

While it is recognized that the financial needs of any taxing jurisdiction must determine the rates of its taxes and that accordingly uniformity in the rates of provincial taxes can be scarcely hoped for, it seems hard to believe that uniformity of information required and acceptance of one inspection by all taxing authorities could not be made a reality if there were a sufficient will to accomplish



these objects."

I have before me a statement which has been furnished to us by a national merchandising organization, showing some eighty-four returns which are made by it annually. Another firm reports one hundred and seventy-five returns and a still third one reports five hundred. While some of our members have been unable to estimate what the cost is, we have definite instances of reported costs, ranging all the way from \$30. to \$25,000. per annum. I understand in some of the briefs that have already been placed before you, even larger sums than that have been suggested.

THE CHAIRMAN: Why would five hundred returns be required? Can you illustrate that?

MR. WRIGHT: Mr. Chairman, I do not know whether I have really satisfactory detail available, but I can say one or two things. This corporation is a manufacturing corporation operating, I believe, over the whole of the Dominion. The bulk of its returns would be made in the usual way of company's information returns, returns for corporation tax purposes, and the various statistical information sent to the Bureau of Statistics at Ottawa. In addition to that this particular firm happens to be the manufacturer of a commodity that comes in for certain special taxes, provincial, and I imagine that a part of the five hundred returns is due to that special commodity, which happens to be the subject of special tax, I think, in every province of Canada, so that it is possibly a little extreme.

THE CHAIRMAN: Take the nine provinces and the Dominion, and the Bureau of Statistics, it seems rather difficult to understand how they get up to three hundred or two hundred and fifty different forms.

MR. WRIGHT: If I might help you, Sir, take for instance the sales tax, that is monthly, and this company I speak of is subject to a similar provincial tax, I think



the returns also going in monthly, so that you see on that special commodity there are one hundred and twenty returns per year alone.

MR. TOLCHARD: I will continue reading:

"Interprovincial Business Barriers

Although one might feel that sufficient inter-provincial trade barriers, as described above, have resulted from mere lack of co-ordination in the action of governments, unfortunately, it must be recorded that positive discriminatory legislation has been enacted intentionally. The following are some examples of discriminatory provincial legislation; -

1. The Province of New Brunswick levies special taxes on gross retail sales in the Province on firms whose ownership is located outside it and upon inside firms who bring goods from outside jurisdictions within the Province for re-sale by retail. The taxation levied is substantial and is not imposed upon competing domestic products.
2. The Province of Quebec requires companies developing natural resources in that Province to be incorporated under Quebec charter, with all the incidence consequent thereon.
3. The Province of British Columbia imposes a tax on fuel oil (imported) but does not tax coal, its competitive product, which is produced domestically."

Some examples are given on page 40. You will notice there are three specific instances given which speak for themselves and indicate a course which, if persisted in, will lead inevitably to retaliation, inter-provincial reprisals and impairment of national unity in the country.





Reference is made on page 41 to submissions by other business, financial, and industrial bodies. We refer to the Canadian Manufacturers Association, The Dominion Mortgage and Investments Association, The Canadian Life Insurance Officers' Association, and give specific extracts from submissions placed before you by these associations, and others mentioned at the bottom of page 42, the Fire and Casualty Insurance Companies, The Canadian Federation of Mayors and Municipalities, the Trades and Labour Congress, The Investment Dealers' Association, The Canadian Bankers' Association, The Canadian Electric Association, and so on.

Then carrying on with page 43:

"The Board believes that a proper solution of the problems of inter-provincial trade involved in Duplicate and Overlapping Taxes, Parallel Taxes and Lack of Uniformity in Returns, Laws and Regulations and Multiplicity of Inspections lies wholly within the power of governments. No super-human powers are called for and the solution will be reached in the exact ratio of the will of these governments to reach it. A sound solution, if properly arrived at, will enable substantial savings to both business and governments, will promote further development of national unity, will encourage and enable a business expansion of material benefit to every citizen of this country and will provide an expanded source of taxation to guarantee our future governmental solvency.

The Remedy can take one of the following three forms:

1. That the Dominion assume exclusive jurisdiction over the taxes concerned.
2. That there be only one tax of any given form



"which tax shall be imposed and collected by the Dominion. The Provinces would share in the proceeds of the tax retaining, if they so desire, control over the rates on taxes which are imposed within their respective borders for Provincial account.

3. In the event of the solutions in (1) or (2) being found impractical, then that the Dominion and provincial tax systems be standardized and co-ordinated so that only one annual return, one collection agency and one audit is required.

This Board is interested in the result rather than the form achieving that result takes. Consequently, the Board does not express a preference for either of the methods outlined, other than to suggest that, if in the final adjustment of Dominion-Provincial financial relations, the Dominion is to acquire further revenues now collected by the Provinces, consideration be given to the Dominion acquiring such additional revenues in part at least by assumption of an exclusive jurisdiction to impose sales taxes (including retail sales), income and corporation taxes. Should it be, however, that the third alternative is followed, the Board suggests that as a means of achieving standardization and co-ordination, there be regular meetings of Deputy Treasurers with interested taxpayers' representatives, following along the lines of the annual conferences of the Superintendents of Insurance of the Provinces of Canada, which have done so much to bring about uniformity in our insurance laws.

Retroactive and Double Taxes, Lack of Finality in Taxes and Assessments and Interprovincial Trade Barriers are matters of governmental practice and policy rather than of constitutional significance.



"even though the constitutionality of some of the legislation operating as an inter-provincial trade barrier may not be conceded. These matters are raised here, however, as they are more or less general over all Canada and as it may be that there is an enhanced possibility of having them removed in the course of a general readjustment. The Board believes that they are of an importance that merits all possible steps the Royal Commission can take towards their cessation."

Section 4, Succession Duties, The Toronto Board of Trade directs attention to the hardship multiple Succession Duties imposes on estates. A history on this matter is given on pages 45, 46 and 47. It will be noted that this question was placed on the agenda of an interprovincial Conference held in Ottawa in 1926, and I am quoting from the Resolution of that Conference, which appears on page 47:

"That it is the opinion of this Conference that all Provinces should take the steps necessary to avoid multiple taxation in the imposition and collection of Succession Duties."

Then on page 48:

"Sufficient has been said above to indicate the hardship multiple succession duties impose on estates. The Board wishes now to call attention to another aspect of the subject which it is thought has not been given the weight its importance merits. This is the effect multiple succession duties have in deterring the movement of investment and wealth from one province to another. Potential penalties in the form of multiple duties, when a person dies domiciled in one province with money invested in another province, are powerful factors in causing owners of wealth to follow a policy of confining in-





"vestments to the province of their domicile or at least to the limited types of more general investment where no question of multiple succession duties can arise. In practical operation this is an influence tending to bottle the accumulated wealth of the central provinces within them. A portion at least of this wealth, and perhaps a substantial portion, is thereby prevented from taking advantage of undoubted investment possibilities, particularly in the development of natural resources, in the more outlying provinces which so need an influx of wealth for the stimulus it will give their economy and the greater taxation resources it will make available to their governments.

This Board urges that the Royal Commission endeavour to impress on Provincial Governments the need, both in their own and taxpayers' interests, for a proper co-ordination of the principles they apply in determining jurisdiction to levy succession duties so that there will not be more than one succession duty imposed on any part of the estate or any part of the assets thereof. Periodic conferences of provincial succession duty officers could, the Board believes, be made an effective clearing house for removing duplications or overlappings in the succession duty field."

THE CHAIRMAN: There is no doubt there are these practical difficulties in connection with Succession Duties, and the provinces so far do not appear to have been able to agree on co-operation, to an extent at least, that would overcome these difficulties.

MR. TOLCHARD: We had a considerable measure of co-operation until last year, a reciprocal arrangement.



THE CHAIRMAN: That reciprocal arrangement was cancelled. .

MR. TOLCHARD: Just about a year ago, with some of the provinces.

Then section 5, Social and Welfare Services, in this section the board expresses its views with regard to social and welfare services:

"As a business organization whose main background of experience has not had to do with problems of intergovernmental finance and administration of social and welfare services, this Board does not presume to suggest where governmental financial and administrative responsibility for them should rest. This, it is believed, can only be determined as a part of the general readjustment of financial responsibility and revenue as between the Dominion and the Provinces. The Board is, however, interested in the relation of these services to business and in having them extended efficiently to all citizens throughout Canada in the most economical manner consistent with proper service. In this connection, however, the Board wishes to emphasize, what has been stated to the Commission already, that municipalities have had to bear an entirely new financial responsibility in respect of social and welfare services that was not contemplated when their taxing powers were granted and which is national and not merely municipal in its implications, the burden of this has fallen on real estate to such an extent that it has not only reduced the number of home owners but also retarded construction and allied trades and employment therein and has undermined the value of investment in real property. As is well known, municipalities and property owners generally contend, with consider-

THE UNIVERSITY OF CHICAGO

1911

THE UNIVERSITY OF CHICAGO

1911

THE UNIVERSITY OF CHICAGO

1911

THE UNIVERSITY OF CHICAGO

THE UNIVERSITY OF CHICAGO

THE UNIVERSITY OF CHICAGO

THE UNIVERSITY OF CHICAGO

THE UNIVERSITY OF CHICAGO

THE UNIVERSITY OF CHICAGO

THE UNIVERSITY OF CHICAGO

THE UNIVERSITY OF CHICAGO

THE UNIVERSITY OF CHICAGO

THE UNIVERSITY OF CHICAGO

THE UNIVERSITY OF CHICAGO

THE UNIVERSITY OF CHICAGO

THE UNIVERSITY OF CHICAGO

THE UNIVERSITY OF CHICAGO

THE UNIVERSITY OF CHICAGO

THE UNIVERSITY OF CHICAGO

THE UNIVERSITY OF CHICAGO

THE UNIVERSITY OF CHICAGO

THE UNIVERSITY OF CHICAGO

THE UNIVERSITY OF CHICAGO

THE UNIVERSITY OF CHICAGO

THE UNIVERSITY OF CHICAGO

THE UNIVERSITY OF CHICAGO

THE UNIVERSITY OF CHICAGO

THE UNIVERSITY OF CHICAGO

THE UNIVERSITY OF CHICAGO

THE UNIVERSITY OF CHICAGO

THE UNIVERSITY OF CHICAGO

"able justification, that a substantial portion of the present taxation on real property must be removed if these detrimental conditions are to be remedied.

The Board points out that recently adopted and projected social welfare services, not including public health and education should, the Board believes, be approached from a distinctly national point of view upon the assumption that the social welfare of the people in any part of Canada is the concern of all Canada. This assumption, in our opinion, implies that these social and welfare services should be national in breadth. A national breadth for them is desirable also from a business point of view so that there will be an equitable charge on these accounts to be met in taxes in all parts of the country. If taxes on business for these services vary in different provinces the competitive position of business in those provinces having more extensive social services is penalized. Moreover, it may not be practical for one province to adopt social and welfare policies because of the cost advantage which would result to business in other Provinces which does not bear a corresponding charge, when it would be practical to adopt such services if business in all competitive areas had to meet comparable charges for them. Advancement in social services may be retarded by lack of national scope.

From a financial and taxation point of view unemployment relief is of the greatest moment to business. The Board suggests certain principles for dealing with unemployment relief, the essential elements of which are, firstly, Dominion Leadership, at least, in establishing standards for the whole of







"Canada, and, secondly, that the standards be capable of equitable adjustment according to the conditions of different sections of the country. The Board believes that these principles can be applied to other forms of social and welfare services and that the principle of equitable adjustment is especially important in relation to all such services which involve the giving of financial aid from public funds, such as unemployment insurance, old age pensions and widows' and mothers' allowances, etc. This principle, the Board considers, is fairest to recipients of aid, as while it provides for maintenance of standards of life existing in all sections of the country, it avoids rigidly uniform expenditures as to amount which, while meeting the standards in one area, go beyond or fall short of the standards of other areas. Even though recipients in different parts of the country receive different amounts, these different amounts, if arrived at on a sound basis, will perform the same essential service for those who receive them. Also if provincial or municipal financial responsibility exists respecting any service, it is proper that it should bear its share of responsibility for higher costs due to conditions in it or receive the advantage of lower costs due to its local conditions, thereby avoiding any expenditures that are unnecessary.

The adjustment of general standards to local conditions is not so important in relation to regulatory services which do not involve financial aid from public funds, as for instance minimum wages, limitation of hours of work, weekly days of rest, etc. These matters are more susceptible of



"uniformity in regulation and above all do not carry with them the need to guard against any greater expenditure of public funds than is necessary to accomplish the objects of the service."

Then on page 55, the question of municipal share of taxes on Ontario Mines, the first part of that outlining the taxes which are involved:

"The development of Northern Ontario is of vital concern to the City of Toronto, Southern Ontario generally, and in fact to the Dominion of Canada as a whole. It is essential, therefore, that the progress of the municipalities in this important section of the country should not be retarded and that the citizens of these municipalities and their children should have equal opportunities for their welfare and advancement with the citizens in other sections.

Section VI of the brief places before your Commission the inequitable distribution as between the Federal, Provincial and Municipal Governments of taxation derived from mining operations. As a result the municipalities in many areas in Northern Ontario suffer serious difficulty in having to provide costly municipal services, particularly school accommodation and health services, to populations which grow concurrently with the development of mining enterprises when their rate of sharing in the proceeds of taxes on mines decreases as the mines and their attendant populations become larger.

This Board feels that these northern mining municipalities should receive a more equitable share of mining taxes and urges the Commission to take into consideration the need for such an adjustment



"in any general financial re-arrangement it may recommend. In making this submission there is no thought that there should be any additional taxation of mining operations.





It might be of interest to the Commission, I have a brief here that was prepared in 1935 in connection with one of the towns in the north, in which they point out that in this particular year the taxes were apportioned as follows: municipal taxation 8%, provincial and Dominion taxation 92%. I understand the larger proportion of that 92% goes to the Dominion although I am not informed as to the actual division that is made.

THE CHAIRMAN: Are these municipalities now compelled to carry an unduly heavy burden? I mean is their actual tax income in relation to their expenditure less than that of other municipalities?

MR. TOLCHARD: I believe so, yes. They are limited in other directions too. Mining properties, that is the buildings and so on, are not assessable. It is the land that is assessed, according to this memorandum, on the same basis as agricultural lands. And then they have additional cost involved by reason of the fact that they borrow on a ten year basis instead of longer terms as some of the municipalities in the southern areas. And then they point out in this particular brief that they increase their interest rates as against the Dominion and province, at a much lower rate. "We have no form of vocational education to train our boys and fit them to take their part in the mining industry owing to lack of funds. The reason we cannot is because of limited powers of assessment and taxation given by the province to mining municipalities." The assessment is made by the provincial lands assessor and they point out in this particular case the proportion of the 1935 assessment was: Exempt mining properties 44.6%, taxable mining properties 8.4%, other exemptions 7.1%; other assessments 37.9%.

THE CHAIRMAN: Is that generally true, Dr. Brittain,



of all the mining municipalities, do you know?

DR. BRITTAIN: In Ontario, yes. I don't know whether it is true in other provinces. As the mines become larger, more profitable, their revenue from that decreases, at the same time the need for municipal services increases.

THE CHAIRMAN: Of course, if the mine works out the municipality is left with its expenditures. I know Cobalt is an illustration of that.

MR. TOLCHARD: Yes. That brings us to the summary of observations and recommendations commencing on page fifty-five.

1. Expenditures and taxation.

Urgently needed reduction of public expenditures and taxation cannot be achieved nor can governmental administration in Canada and its financial aspects receive the consideration that is required in the interests of taxpayers and productive undertakings unless searching, detailed co-operative and continuous enquiries are instituted at all governmental levels as to departmental organization and methods of administration, personnel, purchasing, etc., Such studies should be inaugurated immediately for all levels of government and become permanent governmental practice with suitable provision therefor."

2. Grants-in-aid.

THE CHAIRMAN: The audit department of each government only checks public expenditure to see if it is authorized?

MR. TOLCHARD: Yes.

COMMISSIONER DAFOE: Do you suggest some definite formal organization to bring about this constant



co-ordination and co-operation? What would be the mechanism?

DR. BRITTAIN: I think, for example, that the function of auditors should be enlarged to include not only the mechanical authorization but also to look into the question of the quality of services and so on. I think that should be true, not only of municipalities and governments that have their own audit departments but also where private auditors are called in. It seems to me in every government, particularly a government that has a personnel department of any sort, there should be a possibility of them going in and making a survey of any department to see whether they have too many or too few employees. For example, in the city of Vancouver, I don't know that it is over done, but the comptroller there used to have the authority not only to audit the books of the different departments, but also audit the operations of the departments. I think every province should have some such organization as that.

I think it is a good thing to have private auditors as well as public auditors. I think the competition is a good thing. I think there ought to be private organizations who are equipped to make surveys of that sort and who could be called in by governments or by municipalities in order to make such surveys.

COMMISSIONER MacKAY: Is there no possibility of a central organization being established in Ottawa, to be available for the municipal or provincial government?

DR. BRITTAIN: Yes, but I think even then there should be a place for private inquiries of that sort, both on the part of auditors who would establish departments for that purpose and for other organizations which are survey organizations. The trouble with any government





organization is it is very apt to become official, and what is needed here is not so much purely formal official inquiry but real inquiry on the business basis. If you don't have some private organization of that sort it is very apt to become official and standardized. I think that is true of welfare work and other things, that while the government organization is a good thing, there also should be private organization to keep the standards up, provide a little competition.

"Grants-in-aid should be so made as to meet completely the revenue necessities of the case, without weakening the sense of responsibility of the recipient government. The amount of need in each case will have to be decided by an impartial authority or on some pre-arranged concrete basis of calculation which will produce results more or less approximating the need."

COMMISSIONER DAFOE: Is that a grant-in-aid for particular services, particular needs, or is it along the lines of the Australian grants?

DR. BRITTAIN: I think you have to analyze the different forms of grants-in-aid. Grants-in-aid might be given for specific purposes and those are good grants-in-aid, if they are given to specific services which can be limited. But grants-in-aid in the form of a dole are very bad, not only for the individual but for the state. That is, grants-in-aid on the basis of percentage, I think, is open to grave question.

COMMISSIONER DAFOE: Yes, we have had grants-in-aid in Canada for such things as technical education, and then you have the Australian system where a grants commission decides that on the basis of various factors some state



is a "have-not state" and they give them a further sum based upon some formula. I was wondering whether you had any definite idea that something like that should be adapted in Canada, because we have had that suggestion made in many places.

DR. BRITAIN: I think that all grants-in-aid, except perhaps the original grants-in-aid to provinces in the form of subventions which were supposed to be on account of the then-existing debt, I think they should be measurable. I think there ought to be some way to measure the need for grants-in-aid. If you could tell just what the service is and could give a grant-in-aid just in proportion to the service that is good, but there are lots of services you cannot do that for, as you say, and there you have to have some sort of index, composite index made up of different features, which would enable the authority, perhaps a commission like in Australia, to tell the amount of the grant in aid to be made for the province or different part of the country. I think it is extremely dangerous to have grants-in-aid unless they can be put on the basis of a concrete measure.

COMMISSIONER DAFOE: So the province would be under obligation to literally fulfil the instructions?

DR. BRITAIN: I think so.

COMMISSIONER DAFOE: Suppose there was a difference between the province and the Dominion as to whether the province had literally fulfilled the obligation, what then?

DR. BRITAIN: It would be very hard I suppose to eliminate all differences, but the more concrete they would be the less differences like that would occur. There undoubtedly would be differences unless there is a possibility of comparatively exact measurement. It is largely a matter of good will.

COMMISSIONER DAFOE: Which is conspicuously lacking?



DR. BRITTAIN: Yes, but there is a place for good-will, no matter how fine you cut the equipment down, there will always be a place for good-will.

I think that is a thing we need very much in Canada.

COMMISSIONER MacKAY: Do you think grants-in-aid as between a municipality and a province, and between a province and the Dominion stand on the same footing? The municipality after all is a creature of the province. The province considers itself autonomous, some provinces even sovereign, Can the Dominion deal on the same terms with the province, even though it lays down the condition, as a province can deal with a municipality?

DR. BRITTAIN: No, it cannot. The province has absolute authority, theoretically I suppose the province could repeal all municipal rule as has been done in Italy where the head magistrate of every municipality is appointed by the central government. I suppose the same could be done, and where there is a branch of supervision like the departments of municipal affairs the province could lay down the rule to the municipality. But when it comes to the province it is <sup>a</sup>very much more difficult thing, and a greater element of good will and give and take is necessary. At the same time I do not see as long as we have provinces how you can get along without some form of grants-in-aid and the problem is twofold: To technically work out some method that is as good as we can, as objective as we can, then instil as great a national spirit as we can.

MR. TOLCHARD: Standardization of public accounts

"There should be adopted for all public accounts, sound accounting principles, standardization of governmental financial statements and uniformity of definition of the classifications and terms used.





#### 4. Governmental simplification:

Overlapping functions of government should be removed. In view of the existence of 27,577 local administrative governmental units in Canada, this Board feels that our system of local government should be simplified and modified with a view to economy.

#### 5. The Railway Problem:

There is a vital need for the Dominion giving further consideration to the chief proposals for solution of the railway problem placed before the Duff Commission and any other proposals from responsible sources, and examining further all potentialities for effecting economies in the operation of the National System which would reduce the present severe drain upon the taxpayers of the Dominion resulting from the annual deficits of the Canadian National Railways. The Board feels that a solution can be found without displacing or prejudicing present employees.

#### 6. National Business Problems

To enable business to make its full contribution to the national and provincial economies -

(a) Duplication and overlapping of taxation, Lack of Uniformity in Returns, Laws and Regulations and Multiplicity of Inspections should be eliminated. Elimination can be accomplished by:

1. The Dominion assuming exclusive jurisdiction over the taxes concerned, or
11. There being only one tax of any given form, which tax shall be imposed and collected by the Dominion. The Provinces would share in the proceeds of the tax, retaining, if they so desire, control over the rates of



of taxes which are levied within their respective borders on provincial account.

iii. In the event of the solutions in (i) and (ii) being found impractical, by the Dominion and Provincial tax systems being standardized and co-ordinated so that only one annual return, one collection agency and one audit is required.

(b) The Dominion and/or Provincial Governments should cease levying retroactive or double taxes or taxes having such effect and should discontinue re-opening assessments and levying additional taxes, penalties and interest unless there is clear evidence of fraud on the part of the taxpayer.

(c) The Provinces should remove any barriers to interprovincial trade they have erected and refrain from erecting such barriers in future.

#### 7. Succession Duties

In order that wealth may flow freely to economic opportunity and development in all parts of the country and that the estates of deceased persons may not be penalized unjustly, the Provinces should co-ordinate the principles they follow in determining their jurisdictions to levy succession duties so that no more than one succession duty is ever imposed on any part of an estate or any part of the assets thereof.

#### 8. Social and Welfare Services

Recently adopted and projected social welfare services, not including public health and education, should be approached from a national point of view and be national in scope. The Dominion Government



should set up national standards capable of equitable adjustment to the actual needs and conditions of different parts of the Dominion. Special attention should be given to effecting all possible economies in unemployment relief costs consistent with adequate assistance to citizens genuinely in need of relief.

9. Taxation of Real estate"

COMMISSIONER DAFOE: I would like that recommendation a little further developed, if you do not mind. Is the Board definitely of the opinion that the Dominion should contribute by means of grants-in-aid to unemployment relief and to social services with the province doing the administering? That is, the Dominion makes a grant for unemployment relief, for old age pensions, as it does now, and for mothers' allowances, but that the province continues to administer the fund. Is that the suggestion of the Board?

MR.TOLCHARD: In unemployment relief?

COMMISSIONER DAFOE: Yes, and social services?

MR.TOLCHARD: Well, in unemployment relief we feel there should be a standard set up. Probably grants should be given varying in accordance with the local needs.

COMMISSIONER DAFOE: By the Dominion to the province?

MR.TOLCHARD: Yes, as to the conditions under which they should be given and so on.

COMMISSIONER DAFOE: The total grants by the Dominion?

MR.TOLCHARD: No, we have not said that, sir. That would depend, I would think, to some extent, on your other adjustments and the co-operation that would be extended by the provinces and the municipalities. I think somewhere in the brief we go into that. On page 53 we say:

"Also if provincial or municipal financial responsibility exists respecting any service, it is





proper that it should bear its share of responsibility for higher costs due to conditions in it or receive the advantage of lower costs due to its local conditions"

And in the beginning we point out that we do not presume to suggest where governmental financial and administrative responsibility for these services should rest, but we do think there is an advantage in having the standard set by the Dominion and administered through the provinces and municipalities.

COMMISSIONER DAFOE: In many areas we have been told that the provincial government is unable to meet unemployment relief and that the Dominion must assume the total financial responsibility. In that case would it be the opinion of the board that the Dominion should administer it as well?

MR. TOLCHARD: I think we answer that on page 52:

"The Board believes that the Dominion should at least assure standards for all of Canada which could be equitably adjusted for differing parts of the Dominion, thus assuring maximum efficiency through administration removed from the influence of local politics to the end that public funds may be conserved and individuals assisted in the best possible manner. Administration and financing of unemployment relief within each province should be centralized in departments or commissions with localized administration, these departments or commissions being creations of the province or Dominion or joint creations of both according to the source of financial responsibility for their expenditures. The Administration and financing of relief of distress arising from causes other than



unemployment should be left entirely in the hands of municipalities. This suggestion may involve re-allocation of revenues to enable municipalities to meet such responsibilities."

THE CHAIRMAN: Thank you.

MR. TOLCHARD: Continuing No. 9, taxation of real estate.

"To encourage ownership of homes, to stimulate construction and allied trades and employment therein, and to revive real estate values, there is an urgent need for reduction of the taxation on real estate. This can be accomplished by relieving municipalities of some of the costs of social and welfare services which they have borne in recent years. The Ontario practice of relieving them from sharing in the cost of Old Age Pensions and Mothers' Allowances should become general and be extended to include other such services which were not contemplated as a municipal obligation when the present system of municipal assessment and taxation was set up.

#### 10. Municipal Share of Taxes on Mines

The municipalities in mining areas in Northern Ontario should be granted a fairer share in the taxes on the income of mining companies, commensurate with their obligation to provide municipal services to populations which increase with the development of mining enterprises.

The Board of Trade of the City of Toronto has endeavoured to place before the Royal Commission its views on the foregoing topics in the belief that the wide and accumulated experience of its members has enabled it to make constructive suggestions of value.



It has sought to present such views only as it believes the whole business community will support and which, if implemented, will enure to the advantage of all citizens and all sections of the Dominion of Canada as well as to the advantage of business.

Should it be that the Royal Commission feels this Board can be of any further help to it, a request for any assistance desired will be esteemed an honour with which it will be a privilege to comply."

THE CHAIRMAN: The brief will be exhibit No. 268.

EXHIBIT NO. 268 - Brief of the Toronto Board of Trade.

THE CHAIRMAN: Have you any questions, Mr. St. Laurent?

MR. ST. LAURENT: There are just two or three points, Mr. Chairman. On page 19 there is a distinction drawn between the expenditures for services general and then the expenditure for contractual services: 30% for salaries, 30% debt charges, and 40% supplies, equipment, and contractual services.

DR. BRITTAIN: There may be a freight contract or a contract for express.

MR. ST. LAURENT: Subsidies to steamship lines for carrying mail and things of that character.

DR. BRITTAIN: Yes. You may buy goods, that is supplies; you may buy services, they are usually by contract.

MR. ST. LAURENT: Then, on page 23 there is a discussion of the introduction into public accounting of the principles generally recognized for good accounting in business. Is there not quite a controversy just now in the United States over the advisability of doing that, and is not the suggestion made that if it were possible for governing bodies, governments, to resort to the





principles usually adopted in business, that it would be much easier for them to disguise the real deficits that are being incurred by charging only a proportion of the capital outlay as being the proportion attributable to the current year?

MR. TOLCHARD: I would ask Mr. Gordon to answer that.

MR. GORDON: I think, sir, it would depend on the principles of accounting that were adopted.

MR. ST. LAURENT: Did you read in yesterday's New York Times Mr. Ballantyne's letter replying to someone who had advocated that suggestion?

MR. GORDON: No, I did not.

MR. ST. LAURENT: The pros and cons are discussed, and having read Mr. Ballantyne's letter one was not convinced that there would be any substantial improvement in economy in adopting the principle that has been suggested.

DR. BRITTAIN: I don't wish to interject myself into the discussion, but there is one point I think we should bear in mind, that no business, that is no reputable business, carries over unpaid bills to the next year.

MR. ST. LAURENT: Oh no.

DR. BRITTAIN: And that ~~is~~ one principle that governments might very well adopt. I do not think that governments ought to adopt the bad practices of private business, they should only adopt the good practices.

MR. ST. LAURENT: Not if the cash takes the form of deferred charges?

DR. BRITTAIN: And government should not accept the leadership of private business which is suspect but only private business which is righteous and efficient.



MR. ST. LAURENT: The carrying over of unpaid bills would be taken care of by accounting that would be really on the basis of expenditure and revenue and not on the basis of cash receipts.

DR. BRITAIN: A real accounting. But for example, when, as I say, bills become due, they are an expenditure of that year. If you pay on a three-year term for insurance on your buildings, only one-third ought to be charged to that year. When you get a windfall which is applicable to several years you should not apply it to that year, you should distribute it over the years to which it applies. It seems to me if they would adopt principles like that it would improve both private and public business.

MR. ST. LAURENT: Now, on page 36 there is quite a broad statement and I was just wondering how far it was intended to go because we heard in some of the provinces suggestions of modification of policies that they considered would be an advantage to their situation. In the last paragraph of page 36:

"The immense natural resources of those provinces guarantee an effective increase of wealth to them if, through adjustment of taxation and other policies, they create confidence in the capacity of business to operate successfully within their borders."

Has the Board of Trade any views to express upon the monetary policy or substantial changes in the monetary policy that were advocated in some of the other provinces or substantial changes in the tariff policy that were there advocated?

MR. TOLCHARD: No, I don't think we have, sir, particularly on tariff matters. With such a diversified membership as we have it is absolutely impossible to express any



views on the tariff.

MR. ST. LAURENT: The opinions among the members are almost as diversified as among citizens of different parts of the country?

MR. TOLCHARD: Yes.

MR. ST. LAURENT: It was pointed out that at some times happened that dumping duties were collected on goods after they had probably been sold and could no longer be added to the price. Is not that something that is true not only with respect to dumping duties but have not from time to time the members of your organization found that they had to pay freight rates on an increased scale?

MR. TOLCHARD: Increased tariff too.

MR. ST. LAURENT: Increased tariff of freight rates even after the goods to which the freight applied had been disposed of. So that this is a comparable evil to one that exists even outside of governments.

Now, with respect to the sharing by municipalities of a greater proportion of the income from mining companies I note on page 55 reference is made only to the straight income tax rate of 15% or 17%, as to whether it is a single return or a consolidated return, and it is also pointed out that for the three fiscal periods new mines are exempt from the federal income tax. That is a special advantage they enjoy for that period. Is there any reason why these communities which grow up around a mine should have any more consideration with respect to the federal income tax than communities which grow up around a pulp and paper mill, for instance? Is not the situation very much the same with respect to the federal tax, and if there is a grievance there, does it not arise from the fact that the mining lands are perhaps assessed only as





agricultural land, whilst they may have a much greater value and may draw a greater population than agricultural lands would draw?

MR.TOLCHARD: I am not informed at the moment of the assessment of pulp and paper land or the division of taxes, if any, from those sources. We have only had this complaint from the mining towns where the assessment is definitely limited, - and the assessment is made by a government officer, not by a municipal officer, - and where the division is limited to the extent that I have stated. We have not looked into the question to see whether the same conditions applied in the pulp and paper towns.

MR.ST.LAURENT: No, but that matter of assessment would be purely provincial and municipal, and the manner in which the federal income tax is taken from the company is quite another question, having no bearing upon it.

MR.TOLCHARD: I don't know that I have that information, sir.

MR.ST.LAURENT: Well, it would appear from this that the only federal tax your board is calling attention to is the ordinary income tax at the rate of 15 or 17% as to whether it is a consolidated or single return, and that is the ordinary rate applicable to all trading companies.

MR.TOLCHARD: We are referring to the profits of mining companies are subject also to taxation under the Ontario Mining Companies to 3% of annual profits.

MR.ST.LAURENT: Yes, that is apart from the federal act, though.

MR.TOLCHARD: Yes.

MR.ST.LAURENT: There might have to be some adjustment as between the provincial government and municipality



but with respect to the federal proportion of income tax that is taken from all trading companies indiscriminately of the kind of business they are engaged in.

MR.TOLCHARD: I cannot answer that at the moment.

MR.MARSHALL: Is it not the thought that towns which spring up around mines that work out must pay as they go?

MR. ST.LAURENT: Yes, and they spring up around pulp and paper mills in just the same way.

MR.MARSHALL: Yes, but they must pay their way as they go. They have no permanency around them as a small town in an agricultural centre.

THE CHAIRMAN: Colonel Marshall and Mr.Tolchard, we thank you for this interesting and important brief and it will receive our serious consideration.

COLONEL MARSHALL: Thank you very much for the consideration.

THE CHAIRMAN: It is now practically four-thirty: we will not start the Manufacturers Brief until tomorrow morning at ten-thirty.

--- The Commission adjourned at 4:30 P.M. to be resumed at 10:30 A.M. Tuesday, April 26th, 1938.



ROYAL COMMISSION ON DOMINION-PROVINCIAL RELATIONS

---

REPORT OF HEARINGS

---

APR 26 1938

REPORTERS:

George Thompson  
John Robertson  
David Torry







TORONTO, ONTARIO, APRIL 26, 1938.

LIST OF EXHIBITS

	<u>Page</u>
Exhibit No. 269: Brief of the Canadian Manufacturers' Assoc- iation (No.6)	6846
Exhibit No. 270: Brief of the Canadian Manufacturers' Assoc- iation (No.7)	6846
Exhibit No. 271: Brief of the Canadian Manufacturers' Assoc- iation (No. 8)	6846

-----



TORONTO, ONTARIO, APRIL 26, 1938.

REPRESENTATIONS BY CANADIAN MANUFACTURERS'  
ASSOCIATION

	<u>Page</u>
W. D. BLACK (First Vice-President)	6754

REPRESENTATIONS BY DOMINION MORTGAGE and  
INVESTMENTS ASSOCIATION

J. H. LITHGOW, (President)	6849
T. D'ARCY LEONARD, K.C. (General Counsel)	6849

---



TORONTO, ONTARIO, APRIL 26, 1938

TOPICAL INDEX

	<u>Page.</u>
<u>BLACK, W.D., ESQ.</u> (First Vice President, Canadian Manufacturers Association)	
Submissions of Canadian Manufacturers' Assoc. in Ottawa, January, 1938	6754
Request made by Chairman at Ottawa sittings in January for suggestions as to how debt and tax- ation might be reduced	6754
Railway problem in Canada as related to taxation	6756
Excess Dominion expend- iture in 1937	6756
Relief costs as a cause of excess expenditure	6757
Outlay under the head "Government Owned Enter- prise" in 1937	6757
Increase in National Railway debt during period 1919-1936	6758
Review of railway devel- opment in Canada	6759- 6762
Misconception of the National Railways	6762
 COMMISSIONER DAFOE: Formal report of Duff Commission as to how Canadian National Railways came into existence	      6764
Suggestions made in the past with regard to railway economics	6765
Recommendation of Special Senate Committee of 1925 with respect to railway problem	6766
Recommendations of Duff	6767
Canadian National-Canadian Pacific Act of 1933	6768





BLACK, W.D., ESQ. (CONT'D.)

Inadequacy of economies effected by cooperation between Canadian National and Canadian Pacific Railways	6771
The phrase "or some other equally effective measures" in the Duff Report	6772
Two schools of thought with respect to solution to railway problem	6773
The case for a passive railway policy	6775
Critique of a passive railway policy	6777- 6785
The case for railway unification	6785
Proposals made in 1917 and 1921 by Lord Shaughnessy to amalgamate the two Canadian railway systems	6786
Economic, utilitarian and social phases of railway unification the chief matters of public concern	6787
Division of net earnings of joint railway system	6788
Canadian Pacific Railway detailed analysis and estimate of savings which would result from unified railroad operation	6790
Effects of railway union on employment	6792
Critique of a unified railway policy	6793
Political pressure in railway operation	6795
Desirability of public representation in railway administration of a national rather than a political type	6796
Conclusions	6797
Proposed Board of Directors for unified railway system	6800



BLACK, W.D., ESQ. (CONT'D.)

	<u>Page.</u>
Provision for unemployment resulting from railway union	6802
Board of Railway Commissioners	6804
Proposed reconstitution of Board of Railway Commissioners	6805
Functions of proposed Board of Railway Commissioners	6805
The opinion that railway unification is "politically impossible"	6807
Presentation of particularized railway policy not advisable	6809
Submergence of sectional points of view in favour of a common cause the essence of democracy	6810
COMMISSIONER DAFOE: Constancy of Canadian National Railways cash deficit	6811
Duff Commission proposal to create an arbitral tribunal	6812 6813
As to what union of railway systems would involve; permanence of union	6813 6814
Ruling of Duff Commission with respect to the establishment of monopoly	6814 6815
List of reports, books, etc., studied in connection with Canadian Manufacturers' Association brief	6815 6816
COMMISSIONER MACKAY: Feasibility of conducting amalgamated railways as single business enterprise	6816
Political interference in the operation of railways	6816 6817
COMMISSIONER DAFOE: Some degree of political control of railways unavoidable	6821



BLACK, W.D., ESQ. (CONT'D.)

## COMMISSIONER DAFOE:

Other countries in which railway monopolies exist which are not controlled by state	6821
Economic cycles	6822
Problem of unemployment	6822
Waste resulting from public works undertaken for unemployment relief	6823
Prosecution of pre-conceived and pre-financed public works in times of unemployment	6824
Re chart showing total public expenditures upon all forms of construction 1919-1935	6824
Building construction in Canada during 1925-1930	6826
Fallacy of executing public works in conformity with irregular trends of general business	6827
Desirability of pre-conceived, long term system of public works control	6828
Restriction of borrowing in prosperous times in order to facilitate borrowing during depression periods	6829 6830
"Timing" factor in the conservation of public works	6830
Retrospective application of public works control to the period 1919-1935	6831
Affliction of durable goods industries in times of depression	6837
Employment provided by construction industry	6838
Statistical machinery necessary for regulation of public works	6839 6840





BLACK, W.D., ESQ. (CONT'D.)

COMMISSIONER ANGUS:  
Dependence of proposed  
regulation of public  
works upon accurate  
forecasting 6841

Taxing private con-  
struction in boom years  
and bonusing it in bad  
years 6841  
6842

THE CHAIRMAN:  
Difficulty of retaining  
surplus during periods  
of prosperity 6842

COMMISSIONER ANGUS:  
Predicting from an  
unstabilized past into  
a stabilized future 6843

ST. LAURENT, LOUIS S.: Examination of Mr.  
Black 6843

THE CHAIRMAN:  
Inclusion of sinking  
fund and interest on  
highway expenditure in  
annual provincial  
operating expenditure 6843

Incidence trade agree-  
ment as part of tariff  
policy on different  
sections of Canada 6844

LITHGOW, J.H., ESQ. (President, Dominion Mortgage  
and Investments Association)

Introductory remarks 6849

LEWIS, T. D'ARCY, ESQ., (General Counsel, Domin-  
ion Mortgage and Invest-  
ments Association)

Submission of the brief 6849

Public credit 6850

Sources of long term  
loans 6851

Need for maintenance  
of credit 6852

Wisdom of taking long-  
sighted view in dealing  
with problems of public  
finance and credit 6853

Credit of the Dominion  
Government 6854

THE CHAIRMAN:  
Comparison between  
Canadian and Austral-  
ian refunding schemes 6856



LEONARD, T. D'ARCY, ESQ. (CONT'D.)

## THE CHAIRMAN:

Extent of reduction  
of Australian internal  
debt

6857  
6858

Expenditures made  
possible by maintenance  
of Dominion credit

6858

## COMMISSIONER ANGUS:

Re high value of new  
borrowings

6860

Provincial credit

6860

## THE CHAIRMAN:

Taxing powers in  
Australian states

6862

## COMMISSIONER DAFOE:

Federal subsidies to  
Australian states

6862

Inter-relationship  
of Dominion and prov-  
incial credit

6863

Financial difficulties  
of prairie provinces

6865

Manitoba's debt

6866

Manitoba bonds

6867

Proposed reduced  
interest rate on  
refunding of non-  
callable Manitoba bonds

6869

## THE CHAIRMAN:

Re maintaining Man-  
itoba's credit on  
strongest possible  
basis

6869

Effects of depression  
upon Saskatchewan

6869

Probability of a return  
of prosperity in  
Saskatchewan

6871

Prairie Farm Rehabil-  
itation plan

6871

Financial position of  
Alberta

6872

Potential wealth of  
Alberta

6873

Necessity of private  
credit in prairie  
provinces

6874

Demand for credit in  
western Canada during  
period 1900-1914

6874A



LEONARD, T. D'ARCY, ESQ. (CONT'D.)

Seed Grain and Relief Act of 1915	6875
First mortgage invest- ments of life insurance, loan and trust compan- ies in prairie provinces	6876
Interest rates in western Canada	6878
THE CHAIRMAN: Interest rates on mortgage loans in eastern and western Canada	6878
Question of total cost and loss or profit fact- ors in mortgage lending in western Canada	6880
Statement in brief of Saskatchewan Government with respect to interest rates on loan contracts	6881
Average rate of inter- est obtained on mort- gage loans in Manitoba	6883
Annual cost of operat- ing mortgage lending business in western Canada	6884
Evidence given in 1926 before Standing Committ- ee on Banking and Comm- erce of the Senate	6884
Lending money on mort- gage security no longer profitable in prairie provinces	6886
Six per cent rate of interest on existing farm mortgages in Manitoba	6889
Voluntary write-offs of debt in Manitoba	6889
Position of average farm mortgage account in Manitoba	6890
Voluntary Debt Adjust- ment plan in Saskatchew- and in 1936	6891
THE CHAIRMAN: Re voluntary debt adjustment plan in Saskatchewan	6892





LEONARD, T. D'ARCY, ESQ. (CONT'D.)

Mortgage accounts in Alberta	6893
Proposed plan of debt adjustment in Alberta not accepted	6893
THE CHAIRMAN: Interest paid on mortgage debts in Alberta in 1937	6896
Urban loans	6897
Increased feeling in Alberta that mortgagors oppressed by moneylenders	6897
Agreements with respect to mortgage debts in other provinces	6899
THE CHAIRMAN: Feeling in Alberta with respect to earnings of mort- gage companies	6900
Re mortgage companies making money in western Canada during past seven years	6901
Federal farm loans in the United States	6902
THE CHAIRMAN: Losses in Canada by depositors of lending companies, trust compan- ies, and insurance companies during depression	6902 6903
Foreclosures because of inefficient farming, bad faith, abandonment	6904
Desirability of a future supply of mortgage credit for western Canada at rates of in- terest comparable to those in rest of Canada	6904
No permanent economic defect in provincial credit structure of the western provinces	6906
Unemployment relief	6906



	<u>Page.</u>
<u>LEONARD, T. D'ARCY, ESQ. (CONT'D.)</u>	
Recommendations of Purvis Commission	6907
Development of resour- ces through investment of savings dependent upon sound credit	6908
Employment in cons- truction industry at low level	6908
Loans for housing construction	6909
English system of taxation on rental value of property	6909
Municipal taxation in Canada serious cause of losses on mortgage investments	6909
THE CHAIRMAN: Parts of Canada where taxes collected out of income without being made a capital charge	6910
Loans made under Housing Act	6910
THE CHAIRMAN: Restrictions as to size of municipality in which housing loans will be made	6910
Inspection of houses built under Housing Act	6911
Federal assistance to the provinces	6911
Statement in McMillan Committee Report on Finance and Industry	6911
Special grants to Manitoba and Saskatchew- an; examination by Bank of Canada into financial position of prairie provinces	6912 6913
Proposed Dominion- appointed commission to consider applications by provinces for assistance	6914
Fiscal need as a basis for federal assistance to provinces	6915



LEONARD, T. D'ARCY, ESQ., (CONT'D.)

One of the objects of proposed Commission to maintain provincial credit	6916
--	------

Australian Grants Commission	6916
---------------------------------	------

COMMISSIONER ANGUS: Claims accepted by Australian Grants Commission	6917 6918
--	--------------





## ROYAL COMMISSION ON DOMINION-PROVINCIAL RELATIONS

---

 TORONTO, ONTARIO, APRIL 26, 1938
 

---

The Royal Commission appointed to re-examine the economic and financial basis of Confederation and the distribution of legislative powers in the light of the economic and social developments of the last seventy years, met at the Parliament Buildings, Toronto, Ontario, on Tuesday, April 26, 1938, at 10.30 a.m.

PRESENT:

HON. CHIEF JUSTICE NEWTON W. ROWELL....CHAIRMAN

DR. JOSEPH SIROIS	)	
JOHN W. DAFOE, Esq.	)	Commissioners
DR. ROBERT ALEXANDER MacKAY	)	
PROFESSOR HENRY FORBES ANGUS	)	

Commission Counsel:

Louis St. Laurent, Esq., K.C.

Secretariat:

Alex. Skelton, Esq.	Secretary
Adjutor Savard, Esq.	Secrétaire Français
R. M. Fowler, Esq.	Legal Secretary
	to the Chairman
Wilfrid Eggleston, Esq.	Assistant to the Secretary

FOR THE CANADIAN MANUFACTURERS' ASSOCIATION:

Mr. W. D. Black	First Vice-President
-----------------	----------------------

FOR THE DOMINION MORTGAGE AND INVESTMENTS ASSOCIATION:

Mr. J. H. Lithgow	President
T. D'arcy Leonard, K.C.	General Counsel

---



Parliament Buildings,  
Toronto, Ontario,  
April 26th., 1938.

MORNING SESSION

THE CHAIRMAN: The first brief this morning is that of the Canadian Manufacturers Association.

W.D. BLACK, First Vice President, Canadian Manufacturers Association, was called.

MR. BLACK: Mr. Chairman and Commissioners:

" The Canadian Manufacturers' Association had the privilege of presenting submissions to you in Ottawa last January. These submissions dealt with joint control and regulation of public borrowing, the taxation of manufacturing in Canada, old age pensions, unemployment insurance, sales tax, excise taxes and the extent of the dependence of government-al revenues and national income on manufacturing in Canada.

Toward the close of our submissions, you, Mr. Chairman, asked the following question:

'Have you any suggestions which we could consider as to any method whereby debt and taxation could be reduced?'

In reply, it was stated that the representatives of the Association present had no instructions to go beyond the briefs which had been submitted but that your question would be referred to the Executive Council, and, that, if the Council approved, further submissions could be made at the Toronto sitting of the Commission.

We have done this and now beg to place before you additional submissions which have been approved by our Executive Council.

Before doing so, we ask the privilege of making a short statement in regard to the January sitting. A few newspapers, in reporting the above question addressed by the Chairman to us, and relevant



proceedings, conveyed the impression to the public that our submissions did not contain any suggestions in regard to reducing debts and taxation. We do not think that anything said by any member of the Commission or by counsel should have been interpreted in that way.

Our principal recommendations submitted to the Commission in Ottawa in January were: "

With your permission, I will not read these specific recommendations.

"It is respectfully submitted that these recommendations, if given effect, would result ultimately in large reductions in debt and taxation.

In our January submissions we restricted ourselves largely to our own department, manufacturing.

In endeavouring to comply with the Commission's request we are going further afield.

Our additional submissions today, putting forward suggestions as to methods whereby debt and taxation could be reduced, are two in number.

The first deals with the railway problem in Canada as related to taxation. The second deals with the stabilizing effects of the regulation and control of public works.

In endeavouring to comply with your request for additional suggestions, we had contemplated saying something about Dominion, provincial and municipal debts and taxes, but we learned that a submission on this subject was to be presented to you by the Citizens' Research Institute of Canada. We had an opportunity to study this and are in general agreement with it, and consequently, are not presenting a brief on the same subject.





"We hope sincerely that these additional recommendations will be of assistance to the Commission."

The next brief is on the railway problem in Canada as related to taxation, Mr. Chairman, submission No. 7:

"Any attempt to explore the question of public income and taxation must naturally take its departure from the public accounts. For present purposes, however, it is convenient and necessary only to consider the balance as between revenue and expenditure, and furthermore to consider that balance only for the most recent available financial year. It is common knowledge that for a number of years the final balance has been on the debtor side with a consequent steady increase in taxation. The condition of recurring deficit and expanding taxation, operating with the rapid cumulative effect of a vicious circle, is ominous under any conditions and can only be considered as positively dangerous in a country whose existing debt has already reached dimensions which confound the average comprehension.

Referring to the official statement of Dominion revenues and expenditures for the financial year ending March 31, 1937, we find that there was an excess of total expenses over total receipts of approximately \$78,000,000. Ordinary revenues, however, were in excess of ordinary expenditure by some \$58,000,000 even when Public Debt charges had been provided for. The excess expenditure, therefore, occurs under the extraordinary headings, of which Special Expenditure (attributable to relief measures) and Government Owned Enterprises are by far the most important in extent. The other extraordinary charges are either relatively negligible in volume or result from normal accounting practice in the form of writ-



downs of assets.

Relief costs which for the year under review happen to equal the total deficit of \$78,000,000 are an inconstant and, in the long view, an unpredictable quantity. They arise from circumstances which we hope, and can only presume, will be temporary and decreasing. They must be regarded as emergency measures which we, in common with all other countries, have been compelled to institute to meet unemployment resulting from an abnormally severe contraction of international trade. This immense outlay, deriving chiefly as it does from extra-Canadian causes must await the solution or appeasement of international problems before it can be materially reduced. At least it would seem fair to say, for present purposes, that it does not admit of any immediate or important reduction.

The total outlay under the head 'Government Owned Enterprise' amounts to \$44,000,000 in round figures, over \$43,000,000 of which is in respect to Canadian National Railways. This \$43,000,000 is a payment from the Consolidated Fund of Canada to meet a 'cash deficit' of the National Railway system for the year in question. This 'cash deficit' represents only the interest on that portion of the National Railways indebtedness which is held directly by the public. It does not take into account any part of the railway's huge indebtedness to the Government either in respect to the original costs of the constituent lines or to cash advances subsequently made by the Government.

#### THE PROBLEM

Any single debit item such as this \$43,000,000 cash deficit consuming approximately 10 per cent of the national revenue naturally arrests attention.



Any single debit item such as this \$43,000,000 cash deficit consuming approximately 10 per cent of the national revenue naturally arrests attention. When we consider further that this is a direct current loss which may recur indefinitely without retarding in any way the automatic accretion of debt incurred on railway account by the Dominion Government, we must proceed from attention to concern. When we realize that the National Railway debt in account with the Dominion Government increased by \$974,754,287 (or approximately 140 per cent) and the funded debt due to the Public by \$374,000,000 (or about 40 per cent) in the 17 years from 1919 to 1936, we might reasonably feel alarmed for the future. The increase in total long term debt during these seventeen years and the total of deficit contributions made by the Dominion Government to the National Railways but not included in the debt are set forth in Appendix 'A'. Without entering into a detailed discussion of these figures, it may suffice to suggest that any National Enterprise with a debt structure which will apparently double itself in a business generation while yet requiring contributions amounting to one year's national income in every ten to keep it in operation, demands the anxious and tolerant interest of every Canadian. The cash deficits of the Canadian National Railway System are under present conditions, paid from the current income of the country which in turn derives from taxation, and these payments are the largest single constant charge upon the public purse. Hence, the question is one of vital concern not only to those who are, by circumstance, large contributors to that purse but equally to those who are, of necessity or otherwise, its beneficiaries.





If we consider the National Railway problem from the standpoint of resulting taxation, we stand immediately on the grounds of Dominion-Provincial relations, for in all matters of taxation the Provinces are both severally and jointly interested. But perhaps the most pertinent fact which brings the railway question within the scope of this Commission is that it is only by virtue of our railways that our provinces have been able to confederate and operate as a Dominion. Furthermore, while our railways have always been the subject of great public interest, that interest has been largely confined to their spectacular extent and nature and more latterly to their purely political significance. The popular conception of our railways and the problem which they now present, is all too seldom based upon a knowledge of their historical background and economic origins. There are few subjects of national interest concerning which there exists so much partly informed or uninformed opinion. If for no other reason, therefore, than to further public education in the matter, it is respectfully suggested that this Commission should take the railway problem under advisement in formulating its final conclusions and recommendations.

#### Brief Historical Review

A brief review of railway development in Canada is necessary before proceeding to consider existing conditions. The first transcontinental railway in this country was commenced as a national project and as a condition of British Columbia's entry into Confederation. In 1880, after work had proceeded slowly and unsatisfactorily for six years, the Government deeded the completed and building



portions of the line, and granted a cash subsidy together with a land grant to a private syndicate since known as the Canadian Pacific Railway. The concessions were based upon the fact that transcontinental communication and transport were national necessities. They were regarded as part of the price of Confederation. This Company completed the main transcontinental line in 1885, and subsequently acquired or constructed a number of branch lines which together constitute the 17,000 miles of Canadian Pacific system as it exists today.

Of the various railways which were eventually combined to form the Canadian National system, the earliest was the Grand Trunk. This company at first declined to enter western Canada except from the south through U.S.A., a suggestion which was directly opposed to the whole intent of Canadian railway policy of the day, which policy was dictated by the urgent necessity for trans-Canadian communication to secure and maintain the political unity of the physically vast and diversified Dominion. Later, however, the desirability of profiting from the development of the West became evident to the private operators of the Grand Trunk. They finally agreed to undertake jointly with the Government the construction of a second great all-Canadian transcontinental railroad. It was arranged that the Grand Trunk would construct the road from Winnipeg west to Prince Rupert known as the Grand Trunk Pacific while the Government would build the eastern portion, the National Transcontinental from Winnipeg east to the Maritimes. This eastern portion was to be leased to the Grand Trunk Pacific which would



then operate the entire transcontinental system. Even before the railway was completed in 1914, it became apparent that the scheme was a failure. The Grand Trunk Pacific, far from proving an asset to its parent, the Grand Trunk, actually aggravated the financial difficulties of that Company to the point where government aid or bankruptcy became the only alternatives. In these circumstances, it was but to be expected that the Grand Trunk Pacific should refuse to execute its original agreement to lease and operate the National Transcontinental built by the Government. The latter line was then coordinated with the Intercolonial Railway, as the Canadian Government Railways. The Grand Trunk Pacific finally passed into the receivership of the Minister of Railways in 1919, thus sounding the death knell of the original Grand Trunk Company, which for all practical purposes became a Government property in the same year, though not formally unified with the Government Railroads until 1923.

The Intercolonial Railway, which was combined with the National Transcontinental as the Canadian Government Railways upon failure of the Grand Trunk Pacific to execute its operating agreement, was originally undertaken by the Dominion Government as an obligation attending Confederation, providing transportation between the Maritimes and the interior by way of Montreal. Strategic and political, rather than economic, considerations dictated its routing and policy. It represents some 2,200 of the approximate 22,000 miles of railroad operated by the Canadian National in Canada.

The third great component of the present





Canadian National Railways was the Canadian Northern. The Canadian Northern Railway Company originated in the amalgamation of several short lines in Manitoba, which had been constructed or leased by the famous partnership, Mackenzie and Mann. These lines were then expanded through the Prairie Provinces and extended eastward to the head of the Great Lakes waterway at Port Arthur. But the energetic and ambitious partners were not to be satisfied with anything less than a transcontinental system, and to further this enterprise they secured the financial support of both Federal and Provincial Governments. After some delays, the Canadian Northern established a transcontinental service in 1915. The system was, however, so incomplete and so inefficient as a system that it failed to earn its fixed interest charges and required constant Government assistance. In 1917 the Drayton-Acworth Commission recommended that this assistance should be withheld while the Company remained in private hands. Finally, the Dominion Government came into possession of the Canadian Northern upon purchase of the common stock at an arbitrated cost. The Canadian Northern system was then consolidated with the existing Canadian Government Railways under the name, Canadian National Railways.

Upon formal amalgamation of the Grand Trunk System and the then existing Canadian National Railways in 1923, the Canadian National Railway system as we know it today came into existence.

#### Misconception of the National Railways

This is a most generalized and sweeping outline of a matter which has been the subject of many



detailed and documented volumes, and of exhaustive enquiry by a number of Parliamentary Committees and Royal Commissions. The chief object in including it here is to support the contention that our National Railways are not, contrary to a widely held misconception, an inviolable, indigenous birthright of the people, originating in and based upon democratic principles of public ownership. Assuredly, they now belong to the people, who have paid dearly for them, to the tune of some \$3,000,000,000. But there is nothing in the historical background of the National Railways which apart from purely political considerations, would entitle them to be regarded as the talisman of economic freedom in Canada. There is nothing in this chronicle of failure and the assumption of obligation by the people which endows our railways with the status of a great national trust estate, or justifies necessarily, the popular term 'a great national asset.'

The realistic fact is that the Canadian National Railways are the reorganized economic debris of an era of private ambition, public profligacy, reckless competition and general miscalculation in which few if any were without sin. They have become public property, with some slight exception, not by design or intent but because Federal Governments of the times were infected with the prevailing over-optimism and, politically alive to the cry of 'Monopoly!', pledged the credit of the country in support of railway expansion. We have acquired National Railways in Canada because, having committed the country financially, there was no other way out within the frame work of accepted financial procedure; any other course would have imperilled our credit in the



money markets of the world."

COMMISSIONER DAFOE: Mr. Black, do you not think that is rather an over-statement, that the people of Canada are not aware of how the Canadian National Railways came into existence? In keeping with your statement in the paragraph beginning, "The realistic fact --- ", the Duff Commission made a formal report as to how the Canadian National Railways came into existence. If you do not mind, I would like to read it into the record, because I think it is important.

"Government ownership of railways, on the large scale as national policy, was not contemplated or planned by any Government, and was not submitted for adoption to the people of Canada. But, when in 1917, the Government refused to permit the Canadian Pacific Railway Company to negotiate for the majority shares of the Canadian Northern, there was practically no escape from Government ownership of all the railways now comprised within the Canadian National Railways system. The consequent completion and operation of the hitherto privately owned and operated lines with the publicly owned railways followed as a matter of course. Thus, by a combination of contractual obligations and parliamentary measures, the country was projected into the railway business on a large scale."

The clear inference from that is that the government was driven into organizing what subsequently became known as the Canadian National Railways system, in order to prevent a private monopoly in Canada.

MR. BLACK: Yes, that was one of the bases on which they proceeded. I have, of course, directed this to the man in the street in general, and not to those fully informed, who have read and studied the Duff Report. My





statement here refers to the public in general.

COMMISSIONER DAFOE: I think public knowledge is more general than the statement in the brief would suggest.

However, that is a matter of opinion, of course.

MR. BLACK: I will continue with the brief:

"Nothing of this invalidates in the slightest degree the general statement that our National Railways perform a great service for the country. The intent of this argument is rather to display the folly of approaching our railway problem with a misconception of the Canadian National Railways as symbolizing public ownership or open competition or any other political or economic principle. From a business viewpoint, they must be regarded as a public property, mostly acquired of necessity, which is not self-supporting and which requires an annual subsidy averaging 10 per cent of our National revenues. Regarded in this light, the Canadian railway situation appears not only as a very real and pressing problem 'per se' but as a problem in terms of immediate taxation. If a majority of the people are, as Mr. Chairman believed them to be, in favour of reducing taxation they must logically be in favour of reducing the annual cost to the Treasury of the Canadian National Railway System, provided of course that such reduced cost did not involve the loss of any essential service. What suggestions have been made, in the past, to this end?

#### Past Suggestions

The origins and history of nationally owned railways in Canada fall more or less readily into three periods. First, the period of construction and expansion ending approximately in 1916 with



completion of the Canadian Northern System. Second, the period of transition from private to public ownership enduring from the acquisition of the Canadian Northern in 1917 until the inclusion of the Grand Trunk and the appointment of Sir Henry Thornton in 1922-3. Third, what might for convenience be called the period of stabilization extending from 1923 until the present time. There is fairly common agreement today that during the first period we knew not what we did. The second period was one of emergency, it might almost be said of confusion, arising in considerable degree from the fact that the country was then devoting its thoughts and resources to the prosecution of war. It is only during the last period of some fifteen years that the situation has crystallized into sufficiently coherent form to permit a reasonably accurate appreciation of the problem by the public at large. It might indeed be held that this opportunity has only existed for the past eight years, since the years from 1923 to 1930 comprise an era of optimistic extravagance and renewed but ill-fated hope. Previous to 1923 we had, of course, been warned by men closely associated with railroading of the dangers attending our railway policy as it was then proceeding. Nevertheless, in proposing to review suggestions which have already been made regarding railway economics, it is logical to confine the examination to those years since 1923 during which the question has assumed more definite shape in the public mind.

Since 1923 the Canadian National Railways have been the subject of official inquiry on two occasions. In 1925, a special Committee of the Canadian Senate gave long and detailed consideration to the question.



Though neither the operating nor the financial aspects of the enterprise were at that time as forbidding as they have become since, they recommended that the Canadian National and Canadian Pacific Railway Systems should be administered and operated as one unit while maintaining the separate proprietary rights of the two organizations. In principle, this suggestion was not new. As early as 1917, Lord Shaughnessy, then President of the C.P.R., had proposed that the Canadian Pacific should operate for the Government the major portion of the lines which now constitute the Canadian National. In 1921 Lord Shaughnessy made the alternative proposal that the Government acquire the railway properties of the Canadian Pacific, guaranteeing a fixed return to the shareholders; and combine them with the Government owned lines. He suggested that the Canadian Pacific organization be empowered to operate the joint lines on behalf of the country. From these separate conclusions arrived at independently and in the light of dissimilar conditions, emerges at least a common factor, unity of operation as opposed to costly competition, while still preserving the property rights of the two Companies.

In 1931, a Royal Commission, generally referred to as the Duff Commission, was appointed to examine and advise the Government upon the whole question of transportation in Canada. Regarding railways, this Commission concluded upon an ominous and warning note.

The Commissioners were of the opinion that unless the country was prepared to accept their recommendations 'or some other equally effective measures,' it must abandon hope of any relief from





railway deficits and reconcile itself to the prospect of still further repressive taxation. The essence of their recommendations was that the two systems should be preserved as separate entities; that the National Railways should be safeguarded from political pressure and that both railways should be placed under the statutory obligation of cooperating to the end that duplication and waste be eliminated. A programme of economy for the National Railways -- based on a strong criticism of previous extravagance -- was also recommended but there is no doubt that the Commissioners intended and anticipated that the cooperative policy which they proposed would produce the substantial improvement so urgently desired. The Canadian National-Canadian Pacific Act, largely implementing the recommendation of the Commission was passed into law in 1933. The Railways have since been cooperating under the provisions of that Act. It should be mentioned that in estimating, at the request of the Duff Commission, the economies which they would anticipate from cooperation, the two railway managements arrived at very different figures. The officers of the Canadian National Railways believed that the programme would produce total savings of \$30,000,000 annually. The Canadian Pacific officials, with express and telegraph services included, estimated economies of approximately \$11,000,000. What benefits have actually resulted?"

(Page 6771 follows)



It is on record that in the first eighteen months of co-operation the joint savings were at the rate of \$1,250,000 per annum. The following excerpts from the 1936 Annual Reports of the two Companies further indicate the inadequate scale of co-operative economies.

Canadian National Railways, - page 6

"During the year co-operative economies were effected by the abandonment of 27 miles of Canadian Pacific line between Cyr Junction and Edmundston, and 11 miles of Canadian National line between Farnham and Iberville. In each case the abandoned line was parallel to another line which is now jointly used. The estimated joint economy from these measures is \$42,000 per annum.

"Your Directors since their appointment have been and are giving earnest consideration to the subject of further co-operative measures with the Canadian Pacific Railway."

Canadian Pacific Railway - page 18.

"The total annual economy from arrangements in effect at the end of the year is approximately \$1,135,000 and the Joint Executive Committee has approved and authorized the completion of formal agreements covering other projects estimated to yield savings of approximately \$527,000, a total annual saving of approximately \$1,662,000, one half of which will accrue to each Company."

Those figures admit of only two possible deductions. First, that independent co-operation does result in a reduction of cost of railway service to the country. Second, that the amount of reduction is utterly inadequate to the end in view. In short, that the principle underlying co-operation would appear to be sound while the practical results are negligible.



In view of this, it is not only interesting, but indeed obligatory to speculate upon what the Commissioners meant by the phrase 'or some other equally effective measures.'

It would be both futile and unfair to impute to the Duff Commission interpretations for which there are no grounds in their report. But it would be both fair and pertinent to say that this phrase in conjunction with other aspects of their report, such as a very incomplete discussion of proposals for effective amalgamation of the two railways, indicates that the findings of the Commission were naturally affected by the prevailing political temper. This temper was based not on doubts as to the economic effectiveness of consolidated operation, but on an instinctive and, as some contended, an unreasoned fear of monopoly arising from lack of direct competition. It was paradoxical that while unquestionably influenced by this attitude, the Commission should recommend co-operation the very antithesis of competition. This involves no reflection upon the moral integrity of the Commission. They were charged with the task of making recommendations which could be put into practice by the Government. In the interests of effectiveness they appear to have found it necessary to compromise between the practical requirements and the political possibilities of the case.

However, the failure of their recommendations to produce the results desired and expected brings definitely into question the findings of the Commission insofar as they were intended and calculated to effect operating economies. We now find ourselves in need not only of 'equally effective measures,' but of





much more effective measures. What other measures were suggested to the Commission or have since been put forth?

The proposals submitted to the Duff Commission can, for all practical purposes, be summarized under two general heads. First, those which advocated the maintenance of the 'status quo,' that is the operation of the two railway systems as separate and at least passively competitive organizations. Second, those which suggested that the two systems should be amalgamated or unified into one organization under one management. These two schools of thought apparently continue to embrace the bulk of articulate public and official opinion today. Both admit certain qualifications to their theories. Thus those who oppose unification will generally admit that severe curbs upon competition, particularly in the matter of capital expenditure, are necessary. Those who support unified administration and management will usually concede the advisability if not the desirability of preserving the public rights of ownership in the National Railways. But while these modifications tend toward a common ground they do not sufficiently resolve the opposing viewpoints, to provide a working compromise. The possibilities of compromise have been well-nigh exhausted. The railway issue in Canada has evolved to the point where opinion, if it is not to be completely ineffectual, must take a definite, perhaps a final stand. It is vital, therefore, that the question should be carefully and dispassionately considered by all who take a conscious and intelligent interest in the welfare of this country.



As might naturally be anticipated, the opposing opinions upon the railway problem have been repeatedly and fully expressed by officials of the organizations in question. This has been done through the media of submissions to Commissions and Parliamentary Committees, public addresses, and publications of various types. The evidence which the chief executives of the two Companies gave before the Duff Commission in 1932 embodies not only the personal or official views of these executives but also those of the two main bodies of opinion into which public thought appears to be divided. It has been contended on both sides that the views and suggestions of the railway executives have been prompted by self-interest in both a corporate and personal sense. It is inherent in human nature that our conceptions should be conditioned by our environment and circumstances. If the solution of our railway difficulty is to await some process of pure disembodied reasoning, we had best reconcile ourselves to the prospect of recurring deficits and mountainous debt compounding at interest. Hence to dismiss the proposals of either of the chiefly interested groups on the grounds of self-interest or partiality is not only unfair but fundamentally mistaken. We would be better advised to congratulate ourselves upon the fact that the officers and staff of our National Railways take such interest and pride in their , and our, organization that they are at pains to present it to public view in the most favorable possible light. On the other hand, we should feel reassured that the Canadian Pacific Railway, has brought its difficulties and objectives into the light of the public forum and has actively



supported the view that the problem is primarily one of Canadian interest and only secondarily one of Canadian Pacific administration difficulty. It can be further argued in support of tolerant and impartial consideration that there is, in the final analysis, a complete community of interest, for a sound and prosperous Dominion, without sound and prosperous railways, or even a sound and prosperous Canadian Pacific Railway is not only inconceivable but is economically impossible. It behoves us, therefore, to examine the case for and against unification of the railways, unhampered by unfounded pre-conceptions as to what our National Railways are, and unprejudiced by any arbitrary assumptions as to the motives of the protagonists. We are seeking neither a slogan for public ownership nor a prop for private interest. We are searching for relief from taxation arising from operation of our National Railways.

#### The Case For a Passive Railway Policy.

In evidence before the Royal Commission in 1932, independent operation of the railways was supported by arguments to the effect that unification would seriously impair the administrative and executive capacities of the personnel of both systems, which capacities it was argued were engendered and sustained by competition between the two systems. It was submitted that this would be reflected in both the quality and cost of railway service to the country.

The opinion was also advanced that the people of Canada having made great sacrifices to obtain competitive railway service, would object to the removal of the competitive element. It was maintained that the benefits anticipated from amalgamation, insofar





as they were admissible at all, could be obtained from co-operation of the two systems as separate organizations. After enumerating in general terms the possible avenues for co-operation, the passive viewpoint was summarized to the effect that there was no other possible course than to maintain the status quo as economically as possible and to hope for the best.

Other views, essentially qualifications or enlargements of the foregoing opinions, were presented to the Commission. These stressed the dangers of non-competitive railway service, amounting to a monopoly, expressed doubt that unified operation would yield the results estimated by supporters of that policy and strongly advocated the competitive rather than the profit motive as an incentive to efficient operation.

Since 1932 these arguments have been repeated or expanded in public on numerous occasions. The financial organization of the National Railways has been analyzed with the avowed intention of creating an appreciation of these railways as a profit earning property of still greater potential value. It is claimed that the prevalent conception of the Canadian National Railways as a deeply indebted producer of still further liabilities is unfortunate and mistaken.

This theory is supported by the suggestion that much of the railway debt was inherited from the original private owners and should be discounted in making contemporary estimates of the situation. Also that much of the indebtedness in the form of Government loans was really replacement of impaired capital which should not accrue at



interest, but should rank and participate only as capital, since it was used for extensions and improvements. While conceding the seriousness of the deficits which must be met from the annual Federal income, it is maintained that a revival of business to the level of 1927 would abolish such deficits.

The argument that railway unification would create a dangerously powerful monopoly has been advanced, in Parliament and in the Press, against its adoption. This is supported by references to monopolistic abuses in the earlier history of privately owned railroads in Canada.

One of the most important and powerful objections to consolidated operation is that it would result in a considerable contraction in railway employment, aggravating the already paramount problem of unemployment. This objection carries great weight particularly under present conditions and must be considered as second only in importance to the main issue of the extent of the economic benefits which would result from unification.

Other doubts concerning minor aspects have been expressed from time to time but in the main the arguments outlined constitute the case against unified management of the railways. Of these minor fears, perhaps the most prevalent is that the unified organization would be of such scope and dimensions that it would prove difficult to administer and operate efficiently.

#### Critique of a Passive Policy

It is not easy to deduce evidence in support of the belief that lack of direct competition would



impair railway morale and efficiency. Perhaps the opinion derives from the fact that the competitive incentive was undoubtedly used to good effect by the Canadian National management to stimulate their personnel during the formative years of the System. But to conclude from this that cessation of competition would necessarily be followed by a relapse in efficiency is quite fallacious. Upon the basis of such an assumption we would be forced to the conclusion that all such non-competitive organizations as the Post Office and Public Utility Corporations in general are relatively inefficient. There are no just grounds for such a conclusion.

It is common knowledge that a spirit of loyalty and of interested participation pervades the Canadian National organization. It would be foolish to deny the value or desirability of such a spirit. But it is reasonable to contend that any impairment of this spirit following a superficial loss of corporate identity, would be amply compensated by a sense of identity with a successful enterprise rather than with one which, at least in the popular conception, is an embarrassing failure. This admittedly involves the assumption that unification would be successful, but the argument is valid since only upon the presumption of success can unification be at all an issue.

Even admitting the important energising qualities of loyalty and the corporate 'family sense,' some consideration must be given to the motive of economic self-interest. Economic betterment for the individual is implicit in economic improvement for the railways. The contention that railway





amalgamation would impair morale by removing competition, must necessarily be conditional to a great degree upon the economic success or failure of amalgamation. A reasonable assurance of success for unification would largely invalidate, if it did not entirely dissipate, this reason for maintaining the railway 'status quo'.

These deductions admit the presence of competition as a factor in the existing railway situation. They are really beside the point, for the fact is that competition to the degree that it would sustain the administrative or operating efficiency of the systems, simply does not exist. This has been repeatedly emphasized by railway men and others in a position to know the facts. In face of a policy of co-operation and controlled rates competition can only remain as an element of very minor significance, and then more likely to have contradictory and disruptive rather than energising and constructive effects. Competition between the two major railway systems at the present time is nominal rather than actual and its removal could not conceivably have any serious, or even measurable, effects.

The objection that the public would refuse to countenance unified management of railways in view of the great sacrifices which have been made to secure competitive service, arrives at the crux of the question, insofar as it is in the last analysis a matter of public opinion. But it does not follow that the objection is either fundamentally relevant or compelling. Actually the very terms in which the exception is taken, indicates a mis-



apprehension of the real issue. To speak of 'sacrifices' is to imply that the people of Canada, willingly, advisedly, and with conscious intent involved themselves in great financial losses to ensure railway competition. Certainly, various Federal Governments pledged the public credit in support of railway expansion, partly in response to localized public outcry. But, this Federal support was vital to the powerful private interests involved and such public demand as did exist was magnified by every possible means. In any event the original public subsidies and grants apart from those incidental to Confederation, were not advanced in any sacrificial spirit, but rather in the hasty, buoyant, optimistic, but as we have reason now to know, the mistaken and ill-advised mood of the times. For example, the National Transcontinental and Grand Trunk Pacific Systems were projected and undertaken ostensibly for trade and development purposes. They were based on broad issues of public policy as it was enthusiastically but mistakenly conceived to exist at the time. The public funds devoted to the railways since they became a national property were but a necessary consequence of our original mistake. It is just such inaccurate references as these which tend to complicate our economic railway problem by endowing our National Railways with an aura of sanctity and sacrificial awe, which by any conceivable standard of business judgment or common sense, does not attach to them. Inasmuch as it bears upon the question, this argument could be reasonably couched in the terms that the public having perforce paid so much for its railway property and continuing to pay to keep it in operation, is naturally reluctant to alter



the 'status quo' until such time as it can be assured that it will derive financial relief, without loss of essential service, from the change. Here again, we have a major objection only sustainable upon the promise that unification would not be effective in producing commensurate economies.

In view of the figures previously quoted, concerning the financial benefits of the policy of independent co-operation, the suggestion that co-operation would be as effective as unification in realizing economies must be questioned. It should, in fact, be entirely discounted. Whatever the fruits of unification might prove to be, cooperation has completely failed to produce any proportionate results, confirming the predictions of those who in 1932, contended that it was impractical and would fail to measure up as a solution of the problem then being explored by the Duff Commission.

The position that the only course open is to stand fast and await general improvement is only tenable upon the proviso that no other course of action offers a possible solution, or amelioration. So long as any such potential course does present itself, a purely passive attitude cannot continue to be acceptable. There are indications on every hand that public opinion has reached or is rapidly approaching this conclusion. A survey indicates that an overwhelming proportion of the leading newspapers and journals of the country are supporting some form of unification.

It is not proposed here to enter into a discussion concerning the relative merits of the competitive and profit motives as exciters of economic or industrial efficiency. There are latter-day economic





philosophies which hold the profit motive in ill-repute, but however that may be there are a multitude of efficient private enterprises which attest to its compelling power.

The motives which prompt the presentation of our National Railways in the most favourable possible light, are neither obscure nor difficult to appreciate. They consist, no doubt, of a composite of conviction, loyalty to the principle of public ownership and a natural desire to associate that principle with success. But however laudable the purpose, it would be fundamentally mistaken to permit it to distract us from a business-like evaluation of arguments which are conceived in support of a passive, and inordinately expensive, railway policy. There is a definite division of opinion as to the accuracy of the appraisal which finds the Canadian National Railways to be an essentially profitable enterprise. There may be those sufficiently sanguine to perceive grounds for hope, though hardly for conviction, that the National Railways will eventually earn sufficient to abolish the present 'cash deficits', perhaps even to provide, in the same sense, an appreciable 'cash surplus'. But apart from the fact that these are very problematical matters, they are quite beside the point in question. This for the very cogent reason that neither the questionable present nor problematical future profits of the National Railways would be lost to the people by any plan or policy of unity which provided for retention and protection of the National proprietary interest.



That unification of the railways would eliminate directly competitive railway service, is self-evident, but that it would result in abuse of this monopoly does not necessarily follow. We are becoming increasingly accustomed to monopoly in matters of public service, for the simple reason that we find it to be the only manner in which to operate these services without waste and confusion. Practically all our municipal transportation systems are either private or public monopolies. Power and lighting, water, gas and telephone services have all proved to be best provided by monopolistic methods whether public or private. But more to the point, in Canada at the present time the Dominion Government controls the incorporation and issue of capital obligations of railway companies. It has committed to the Board of Railway Commissioners very complete and final powers of supervision and authority over the railways, not only in such general matters as the location and abandonment of railway lines, but even in such detailed matters as the standards of service, equipment, operation and accounting. The Board of Railway Commissioners has complete authority to control railway rates where any possibility might exist of their being set in a fashion which might be oppressive, unduly discriminatory or otherwise unfair. These powers can be extended at will and it must be clear that monopolistic abuse would only be possible with Parliamentary indifference or acquiescence. It is a prime responsibility of Parliament to protect the people from the abuse of power in any form. To politically condemn any economic measure on the grounds that it would admit monopolistic abuses, can only be considered an evasion of Parliamentary



responsibility, so long as Parliament possesses or can delegate the necessary prohibitive powers. Assuredly, there have been abuses of economic power in the past, but under the goad of necessity we have acquired an admittedly incomplete but working technique of control, as anyone at all conversant with present day business conditions can attest. Such an imperative and all-embracing public utility as the railways of Canada, abusively operated to the detriment of millions and the unreasonable benefit of a few, is an inconceivable contingency today. He would be bold, indeed, who would envision and attempt such a scheme and we can be morally certain that he would be rapidly disillusioned.

It is well to recall when considering the alleged dangers of monopoly that our railway troubles can be attributed in a great degree to this same fear, sometimes genuine and spontaneous but more often aroused by agitation. Whatever the source of the fear it is a simple matter of recollection for many of us, and of record for all, that the Dominion and Provincial assistance which made possible our vast duplicate and triplicate railway systems, was often excused and condoned upon the plea of monopoly-breaking. The whole railway history of Canada is an earnest of the fact that we have more to fear from the fear of monopoly than from monopoly itself. We have solid ground for treating the political danger-cry of 'monopoly' with the utmost caution and circumspection.

It will be more convenient to analyse the question of reduced employment which might result from railway unification when discussing the possibilities of such a scheme. But it might be said now that any railway policy involving abandonment of the status quo with





its presumably consequent readjustment in employment as in other matters, could be best undertaken when the level of railway employment is relatively low as it is at the present time.

As to the belief that an operating fusion of the two railways would produce an organization difficult to control and operate, this is a purely arbitrary assumption. For all practical purposes, the question is imponderable and incalculable, but so far as it permits of analogy, the evidence is rather to the contrary. There have been many instances of the co-ordination of large scale organizations with mutual benefit. The reorganization of the English railroads and the amalgamation of the Cunard-White Star Steamship Companies are cases in point.

It is readily apparent, and perhaps to be expected, that the case for maintaining our present railway policy rests not so much upon the merits of existing conditions as upon the presumptive demerits of the only alternative which offers, that is unified operation. Most of the arguments against a more active railway policy are contingent upon the failure and would be nullified by the success of such a policy in effecting operating savings without loss of essential service. It remains to consider any proposals which have been advanced and which could be regarded as an active policy.

#### The Case for Railway Unification.

It is self-apparent that if a passive railway policy is to be abandoned, the only possible course of action which remains open to us is to amalgamate or co-ordinate in some manner the two



competitive systems into which our railways have now resolved themselves. A very hesitant and half-hearted step in the general direction of amalgamation has already been taken in the form of co-operation. Like most timid measures, it has proved to be impotent in effect, if right in trend. There remains at least the suggestion that if a co-operative policy were pushed to its logical conclusion in some form of non-competitive union, proportionately larger savings in operating cost would result.

It will be recalled that in 1917 and 1921, Lord Shaughnessy, first as President and then as Chairman of the Board of the Canadian Pacific Railway, proposed that the two railway systems should be amalgamated for operating purposes. Both suggestions envisioned the retention of public ownership of the Canadian National, but with private operating management of the joint system. In general, these would appear to be the only broad lines on which a form of amalgamation could be consummated. It is unlikely that the public would desire or sanction the acquisition of the Canadian Pacific by the Government, even if such a transaction were economically feasible. The national commitment in railways is already greatly out of proportion to the current income of the Dominion. Nor is it likely that the Canadian Pacific Railway even if it desired to acquire the National System, could do so upon terms which would give recognition to the vast sums of public money which have been absorbed by that System. It should be recalled also that both the Drayton-Acworth Commission of 1917 and the Senate Committee of 1925 considered Governmental operation of railroads in any direct form to be undesirable. It would, therefore, appear that any form



of railway fusion to be practical and acceptable, must provide for the preservation of the existing property rights and for the avoidance of direct Governmental administration or operation.

A number of plans or suggestions for unification of the two major railway systems have been placed before the public in recent years. While there has been some divergence of opinion on certain technical aspects of the problem, there is sufficient agreement on the chief matters of public interest to permit the case for unification to be considered as a general thesis, to the exclusion of any individual or personal solutions. In the interests of an objective analysis, it is proposed for the moment, to disregard the question of the detailed corporate form and financial structure which any joint operating organization might assume. These, like determination of redundant mileage and other physical considerations, are matters of technical fact rather than of general policy or principle. They must in the last resort be referred to specialized experts for solution, and as matters of public interest they are secondary in importance to such points as the estimated economic benefits, the monopolistic possibilities and the unemployment potentialities of unified railway operation. In short, it is the economic, utilitarian and social phases of unification which are the chief matters of public concern. The purely mechanistic problems of incorporation, financial re-adjustment or operating practice can well await public judgment upon the more fundamental issues involved.

Practically all current proposals for unified





railway operation contemplate an amalgamation, for administrative and operating purposes only, of the two railway properties. As properties, they would continue to be vested in their present respective owners. In at least one important instance it has been proposed that the joint system should be privately operated by a public and paramount railway authority, endowed by Parliament with all the necessary regulatory powers. Various suggestions for joint public and private management of the combined system have also been made. In all cases, the private interests involved are, at least by logical inference, those of the Canadian Pacific Railway Company.

There has been some recognition of the fact that unified control might require modification with respect to properties other than those of a purely railway character. But, in any event, the Canadian Pacific Railway has expressed readiness to include steamship, telegraph and express services, hotels, etc., in the combination provided a mutually agreeable basis could be arrived at.

Concerning division of net earnings of the joint system, there is some distinction as to method with little difference as to result in the suggestions available. It has been variously proposed that the division should be on a basis of flat equality or that it should be in proportion to the assets and earning power which each organization contributed to the joint enterprise. Since both the major railway companies are of the same approximate order of magnitude by statistical standards and since there is little public distinction



between the standards of service provided by each,  
any disparity between these two procedures must  
necessarilly be unimportant. It is certainly very  
improbable that it would suffice to exclude  
a ready basis of agreement.

---

---

---

---

---

---

---

---

---

---

---

---

---



"In broad terms, the advantages claimed for the policy of unification are that it would permit the elimination of waste in the form of unnecessarily duplicate services in all the ramifications of railway organization; that it would admit the common use of the more economic and effective alternative where such duplication existed; that if permanent it would remove the barrier of opposing interests where the abandonment or impairment of certain company properties or assets was found to be to the best eventual interests of the common enterprise or the public at large; that it would effectively abolish much expenditure which is purely competitive in nature; that it would enable the public, the government, and the Canadian Pacific, to "make common cause" against the miscalculation and extravagances of the past; and finally that it would permit of all these advantages without any loss of essential public service.

More specifically, there has been produced by the Canadian Pacific organization an adequately detailed analysis and estimate of the savings which would result from unified railroad operation, in its various phases. It is neither convenient nor necessary to repeat these here in their entirety. They are recorded in the proceedings of the Duff Commission and are available in the exhibits submitted to that Commission. Among other sources, they may also be found together with a critical appreciation, in Professor L. T. Fournier's valuable volume, "Railway Nationalization in Canada," published by the Macmillan Company of Canada. But they may, for present purposes, be briefly recapitulated.





"To provide a basis in reality, this estimate is predicated upon the 1930 level of operations. It contemplates as desirable retrenchments made possible only by unification, the reduction of supervisory organizations from 75 to 52; the abandonment of approximately 5,000 miles of track; a reduction in passenger train mileage "without detriment to the public service" of about 16 per cent of the 1930 aggregate; a reorganization of freight service resulting in approximately 10 per cent less freight train mileage and a considerable reduction in the extent of terminal operation; concentration of repair and maintenance work on rolling stock in the most efficient shops of the joint system. These measures and changes, translated into terms of railway operating expenditure, indicate according to the estimate a possible saving in joint operating cost of about \$64,000,000 contributed to by all the departments into which railway operation is subdivided. To this total are added savings of a non-operating nature such as those resulting from salvage values considered as a reduction in capital investment. Thus locomotives and other equipment from abandoned lines would become available for the joint system and would reduce the necessity for new capital investment over a period of years. These and certain miscellaneous items bring the estimated total net savings derivable from unified operation up to approximately \$75,000,000. As tentatively proposed, at least one half of this saving would accrue to the public as owners of the Canadian National. Since there are, furthermore, certain obvious but incalculable minor benefits, such as consolidated purchasing power, inherent in uni-



"fication, it may be reasonable to refer to the estimated savings of the plan to the public as of the order of \$40,000,000 per annum.

Concerning the important aspect of employment, the proposals for unified operation contemplate that from 70 to 75 per cent of the existing staffs combined would be required as an absolute minimum to operate the joint system as an accomplished fact, involving the possible eventual release of some 25 to 30 per cent of all railway employees involved. These are the extreme figures considered admissible, the actual reduction having been estimated at 17 per cent. In any event as the accepted average rate of attrition or turnover in railway labour is in the neighbourhood of 5 to 6 per cent per annum and as five years at least would be required to reach a stable "de facto" state of unification, it is contended that unemployment would not present a difficulty on any large scale. It is, however, anticipated that a degree of disruption generally and some individual instances of hardship might impend. These, it is held, can be dealt with by the exercise of fair and sensible consideration which would be regarded as an obligation of the management. The possible necessity of devoting some of the first proceeds of single management to compensatory purposes is also recognized and admitted.

Those who may sense a lack of detail in this very brief but essentially accurate condensation of the case for unified railway management are respectfully referred to the sources previously mentioned, as well as to reprints of many public



"addresses on the subject. It is fundamental that no sound appreciation of such an important and comprehensive scheme can be arrived at without a more particular study than is possible or convenient in a brief of this nature. The same, of course may be said not only of the proposals for unification, but of the whole railway question, insofar as it is a matter of public record.

#### CRITIQUE OF A UNIFIED RAILWAY POLICY

Considered in the broad historical sense, unified railway operation patently appears as the next, if not the ultimate, step in a quite perceptible evolutionary process. Over 90 per cent of all Canadian railroads, originating in a multitude of individual enterprises, are now comprised within the two major systems. In the great majority of instances, the motives which prompted the process of consolidation were in principle similar to those which, at least in the opinions of many, now urge a further unification. There are those who fail to perceive, or deny the significance of continuing trends in the economic affairs of mankind. However that may be, the railway history of Canada, so far as it admits of a generalized interpretation or epitomization, certainly supports the conception of railway unification as an inevitable consequence which may be deferred but cannot ultimately be denied.

It is clearly impossible for the layman to assess the accuracy of the computations which produce and presumably support the conclusion that economies and hence ~~taxation~~ relief to the approximate extent of \$40,000,000 would accrue to





"the public from railway unification. There can be no doubt that the entire resources of the Canadian Pacific Railway Company, both as to personnel and records would be available in making the calculation. It is inconceivable that these resources would not be utilized to the fullest possible extent in any essay of such significance not only to the public; but to the Company itself. If the reckoning is to be checked or evaluated in any way, the task might most fittingly and effectively be undertaken by the only other organization possessing the necessary comparable equipment, the Canadian National Railways. At the request of the Duff Commission, the officers of the Canadian National did produce their estimate of the economies which would derive from a plan for unification such as that submitted to the Commission. They arrived at a more or less conditional total of approximately \$55,000,000. At first sight it might appear that the divergence of \$20,000,000 between the calculations of the C.P.R and the C.N.R. is unduly great and indicates a difficulty in making assessments of such complex and large-scale activities. But even admitting the difficulties of determining a common basis for estimating, and the many variable and intangible factors which must enter into a computation of such extent, the fact remains that the independent survey of the Canadian National (which must be regarded as of equal consequence to any other), confirms the effectiveness of unification as a source of large potential economies. This has been pointedly emphasized by posing the question



"Is an annual saving or economy of \$55,000,000 unworthy of the consideration of the Canadian public?" It is true that all of this saving would not go directly to the public in their capacity of railway owners, but since the reasonable prosperity of the Canadian Pacific is an admitted matter of national concern, the remainder of the economy would be an important, if indirect public benefit. There is also to be considered the eventuality that efficient unified management would produce sufficient revenues to permit a reduction of rates, after profits have reached a fair and reasonable level. Such a rate of reduction would be a very direct and acceptable public benefit.

For the suggestion that the common enterprise be privately controlled, with a final and pre-eminent authority reserved to some form of public railway authority representing the national interests, there exists strong supporting evidence. As previously mentioned both the Royal Commission of 1917 and the Senate Committee of 1925 vigorously deplored and recommended against any organization of Canadian railways which permitted political or public pressure to bear. The difficulty in giving effect to these warnings was thrown into strong relief in the report of the Duff Commission of 1932. In his evidence the President of the National Railways conceded the practical impossibility of excluding politics from any government activity even in face of the best intentions on the part of political leaders or the public as a whole. He frankly referred to such a condition as



"'fundamental and universally admitted,' and considered it to be an inseparable corollary of popular Government. The Commissioners themselves in referring to the Canadian National extravagance of the boom years reported that 'it is impossible to avoid the conclusion that the Board of Directors and the management of the National Railways were amenable to political influence and pressure, which it would have been in the public interest to have withstood.' There is no lack of evidence to prove both the great advisability and the acute difficulty of removing a government owned enterprise from the field of political influence upon its administration. In view of this, the suggestion that the unified control of the railways should be in private hands, subject to the ultimate regulatory powers of a public but non-political authority, appears to be realistic and warranted. The fact remains however, that some public representation in the railway administration of a type that would be national rather than political or sectional in character would be desirable. The Canadian Manufacturers' Association, while persuaded that the dangers of interference stressed by the various enquiries are very real, believes that it would be possible to secure such representation and a suggestion in this connection will be submitted in the concluding part of this brief. It might be pointed out here that a plan of unified control if successful would free the National lines from their immediate and annual financial dependence upon the government of the day. This would tend





" to make more difficult the exertion of political pressure upon its financial or operating policy.

Reviewing the suggestions for unified railway management in the most detached and objective light possible, they appear to constitute a ~~constructive~~, progressive and reasoned policy. While still essentially tentative and incomplete, they have been explored and extended as far as can reasonably be expected, pending public and governmental acceptance of the principle of consolidation as a probable means of achieving very considerable railway economies. Insofar as they comprehend the attitude of the Canadian Pacific Railway Company, they indicate a willingness to cooperate in the public interest to the fullest extent and to accept a degree of final public authority which would be irreconcilable with selfish, or in the worst sense, monopolistic motives.

#### CONCLUSIONS

It is not the intention of the Canadian Manufacturers' Association that this submission should be regarded as an independent or isolated discussion of Canadian railway difficulties. The subject has been approached rather as a prominent and self-asserting phase of the wider question of public expenditures and taxation as a whole. The remarks of Mr. Chairman previously quoted in later reports of its proceedings, indicate the desire of this Commission to receive and consider suggestions bearing upon that general question. In this light, the railway problem is inescapable, and its introduction here follows as a natural and necessary



"consequence. It is the result of a logical sequence or association of ideas and is no part of what a small section of the press has called a "campaign of propaganda now being renewed." Our Association is not interested in any current public campaign which may or may not exist, but it is deeply interested in the Commission's concern regarding public debt and taxation.

To state the case concisely, this Association submits that operation of the Canadian National Railways under present conditions, involves a degree of taxation which demands the fullest and most vigorous exploration of the possibilities for relief. It is of the opinion that a policy of waiting and hoping for better times cannot be justified on any grounds of past history, existing circumstances or probable future developments. It suggests that a positive and progressive course of action is mandatory and that that course must necessarily be set in the direction of an operating union of the two major and presently competitive systems. It believes the retention of public ownership of the National lines to be both desirable and possible in such a union and it considers that the fears of monopolistic or political abuse of power arising from such a union are not substantiated in fact.

It would be improper to infer from this statement that the Canadian Manufacturers' Association desires to recommend the adoption of any contemporary or particular plan for railway unification. Our Association, while it embraces competent transportation opinion, does not seek consideration as a railway authority in any technical sense.



"But it does claim to represent a phase of Canadian life which is closely associated and vitally concerned with the railway problem, as with all other questions of economic policy related to taxation. Consequently it would be a proper inference and it is definitely urged that this Association believes the general concept of unified railway operation (in other words, combined management) to be based, both theoretically and factually, upon sound premises and that it constitutes, in principle, a policy likely to be more profitable in every sense to the Canadian people than a continuance of the 'status quo'. It is suggested that unified operation of Canadian railways has never received the official recognition and consideration which its importance, as the only apparent alternative to mounting debt and continuing taxation, quite evidently demands.

Since this brief does not constitute any plan for such amalgamation in itself and since it is not intended to sponsor any particular proposals which have been made, there may remain a moral obligation to explain the grounds for reservation. While it has been suggested that the proposal for private operation of the consolidated railway system is sound and reasonable in view of the opinions of the several official bodies of enquiry previously quoted, the fact remains that a degree of public representation in the actual provision of railway service would be desirable, provided it could be obtained in a manner that would obviate any political pressure upon the administrative body. Our Association believes that this





"can be achieved by making use of the various National associations which are already in existence and which constitute a very complete representation of all the economic interests of the community.

If we may assume, purely for purposes of suggestion, a Board of Directors for the joint system consisting of 16 members, these might equitably be appointed equally by the private and the public interests. The eight public Directors could, as a suggestion, be selected by the government from a panel of names submitted to them by nationally representative associations, each association providing two nominees as a means of enlarging the choice and reducing the possibilities of pursuing any original intent concerning an individual appointment. Again as a suggestion, the National bodies or interests which would adequately represent public participation might conceivably be as follows:

#### Organized Labour

Canadian Council of Agriculture

Canadian Chamber of Commerce, Inc.

Canadian Bankers' Association

Canadian Insurance Association

Canadian Manufacturers' Association, Inc.

Canadian Construction Association

Engineering Institute of Canada.

Canadian Lumbermen's Association

Canadian Institute of Mining and Metallurgy

Fisheries

Upon the presumed basis, these bodies or interests would submit twenty-two names from which



"the government would appoint eight as Directors representing the public's separate proprietorship and joint operating interests in the coordinated enterprise.

There can be little doubt that the primary and legitimate objective of most, if not all, of the Associations named is to preserve and foster the economic life of the national interests which they represent. This they would undoubtedly prefer to do by direct and expeditious representative methods rather than through the medium of political influence. In short, an immediate and direct representation would remove the necessity for and greatly reduce the probabilities of more subversive political methods. In any event, the indirect process of selection suggested would introduce such considerable elements of variability and disconnection as to render any successful scheme of mal-influence a very remote contingency.

The importance and prestige of representation on such a body as a Dominion-wide railway Directorate would automatically ensure the candidature of the "Best brains" available to each association or interest. It is not to be ignored that the method suggested would enlist the services of men of ability and experience not readily or always to be found in individual private or political organizations.

It is submitted that such public representation as is here roughly suggested would not only be desirable and beneficial in itself but would do much to appease a section of public opinion difficult to reconcile under any circumstances, to any



"conceivably effective retrenchment in cost of Canadian railway transportation.

This Association believes that the self-amortizing conception of the unemployment problem attaching to unified railway operation is essentially accurate and sustainable. That the average yearly labour turnover at the rate of 5 per cent would in the course of five years reduce the joint establishment to the estimated necessary minimum of 75 per cent of present employment, without major displacement, is self-evident. That adequate compensation would be necessary in some particular cases is probable and admitted. That some of the early gains of unified operation should be reinvested in sustaining employment is both feasible and desirable. But, on the grounds that the humanitarian aspect is not only of the utmost importance on its own merits but further, on the score that its satisfactory solution is an imperative condition of public acceptance, this Association would urge more definite and detailed examination and statement of the provisions for employment protection. For example, it is suggested that such protection should be in no wise conditional upon the success or otherwise of unification but should be a joint prior and uncompromised charge upon the Canadian Government and the Canadian Pacific Railway Company. The Canadian Manufacturers' Association is of the opinion that the potential benefits of unified railway operation are of such a degree that unconditional and ample, not to say generous, provision for possible displacement or readjustment





"in employment is well warranted. A complete assurance, such as would only be possible with full Governmental as well as private acceptance of responsibility, is both essential and desirable.

Whether it may be a matter of fact or not, it would be logical to expect that opposition to unified railway operation on the grounds of consequent unemployment should be most prevalent among and articulate in the present personnel and staff of the Canadian National Railways. This, of course, turns upon the fact that most, if not all, proposals for unification have envisioned private operation. Such fears as may exist in this respect, merit every consideration and it should consequently be an essential element of unification that any unavoidable disruption or displacement of officials or staff inherent in the scheme should be dealt with in a strict and rigid spirit of equality as between the two component systems.

For almost a century the railway industry in Canada has been subject to some form or degree of public regulation and control. These powers of regulation have embraced the construction of new and abandonment of old lines, the standards of equipment, operation and service and even the methods of accounting. Authority has been especially exercised with regard to rates and location, for the wide and diverse nature of the Dominion has required the equalizing and rationalizing of charges and facilities in order that no particular area or areas should be unduly



"handicapped by remoteness or inaccessibility. Since 1904 this public authority has been in the hands of a Board of Railway Commissioner, consisting of six members, aided by a number of technical advisers. The considerations which have demanded regulatory control would still prevail in the event of unification. They would, in fact, be greatly enhanced by the creation of an actual, if benign, monopoly and by the desirability of ensuring full recognition of the public rights in the joint system. It must be remembered that under unification, these public rights would be of a dual nature since they would involve not only those incidental to a great public utility, but also those inherent in part-ownership. It is apparent therefore that the responsibilities of any supreme railway authority, contingent to unification, would both embrace and transcend those of the existing Board. It is logical to infer that its powers and authority should be proportionately increased. This access of authority would endow the office with such importance that the necessity for men of the utmost integrity of character and highest quality of mind becomes increasingly evident. The standards of selection should, in fact, be so scrupulous and exacting as to necessarily limit membership to the practical minimum, namely three. This would admit a sufficient diversity of administrative experience and skill, while ensuring a majority opinion at any time. Amended powers and membership suggest that the present Board of Commissioners would require to be reconstituted, if



"not entirely superseded.

It would be difficult to over-emphasize the imperative necessity for discretion and judgment in the appointment of a superior railway authority such as that suggested. That they should be above the very suspicion of doubt as to ability and personal and political integrity is urged not only by the dictates of common sense but by the repeated and insistent demands of every official body which has ever passed judgment upon the Canadian railway problem. The paramount consideration in the selection of this body should be, to secure the strictest possible exclusion of the political or sectional influences which were largely instrumental in creating our railway problem in the first instance and have since continuously aggravated it.

It is impossible to more than outline the powers and responsibilities which would attach to such a reconstituted Board of Railway Commissioners. Generally speaking their functions should be of a constant, all-pervading and somijudicial nature in railway matters. More specifically they would retain all the existing powers of the present Board respecting routing, standards of equipment, construction and service, the location of new lines, etc. They should have complete control over all forms of railway rates and in addition, all the physical processes of unification involving alteration of the assets of the component companies, such as abandonment or extension of track or terminal facilities, should require





"their approval before execution. In the unlikely event of deadlock in the Directorate of the joint railway system the reconstituted Board should have arbitrary powers of decision.

Furthermore, in order that the originating powers of the joint Board of Directors in matters of operation should be controlled in the last resort by the new Board of Commissioners, any minority of three or more Directors should have the right of appeal to the Commissioners. Such an appeal should constitute an injunction against execution of the debated decision, pending the overriding decision of the supreme Board. This measure would serve to prevent the hasty enforcing of decisions during any temporary disparity between the private and public representation on the Board of Directors. The requirement that the minority be three or more would evade the danger of obstructive tactics on the part of any individual Director. Finally, any reorganization of executive officers, consequent to unification, should require the approval of the new Board.

It is evident that the possession of such considerable powers would not only require that the Board of Commissioners be composed of men of the highest administrative and moral calibre, but would also demand that their tenure of office should be lengthy and assured. It would require also that their powers of decision should be as final as constitutional procedure will permit. It is suggested that the Board should in the first instance be appointed by the Cabinet, for a term of not less than seven years, vacancies as they



"occur to be filled, also by the Cabinet, from a panel of names submitted by the remaining Commissioners. The appointees should be removable only for cause on address of the Senate and House of Commons. There should exist the right of appeal to the Supreme Court of Canada from decisions of the Board of Railway Commissioners upon questions of law.

The duties of a small but transcendently important Board of Railway Commissioners would make rigorous demands upon the physical as well as mental powers of its members. A reasonable age limit should therefore be imposed, providing a safeguard not only for the public interest but for the well-being of the members themselves. The actual age of retirement could be best determined after the duties of the Board have been defined.

The opinion has been repeatedly voiced in the past and continues to be heard, that any form of railway unification is "politically impossible" in Canada. The inference of course is that public opinion is so widely and so determinedly opposed to any such suggestion that no government or party which implemented or sought to implement it could resort to the polls without certainty of defeat. While it remains true that public opinion is the constant and abiding foundation of democratic government, it must be remembered that that opinion is, in itself, inconstant and progressive, particularly so regarding the complex and often obscure economic problems of modern times. The recent political history of most



"democratic countries bears this out. Political power is now more often lost than won by a passive acceptance of time-honoured shibboleths and comfortable platitudes. Not only the spirit, but the necessities of the times call for a firm and courageous attack upon the perplexities and inconsistencies which derive from the swift and intensive development of material life in latter years. Such is the urge for social and economic readjustment and rationalization that "standing pat" becomes the cardinal political sin. In Canada, we have, we believe, a background of historical tradition and racial character which preserves us from the excesses that can undoubtedly flow from this urge or impulse. But we cannot detach ourselves from the main stream of human events and there are many indications that any Canadian Government or political party which omits or refuses to face up to our major national difficulties in an aggressive, if reasonable, manner will not long enjoy the favour of the Canadian people. That the railway problem is such a major difficulty needs no reiteration. Indications of a public sense of irritation and dissatisfaction with the present state of railway affairs appear with increasing frequency. There is a growing demand that this perennial Frankenstein of the Canadian scene, the railway problem, should be finally and vigorously assaulted and laid low. Those who may be interested in the political aspect might be well advised to consider if the time has not arrived when to ignore this





" demand has become "politically impossible."

In the event that the Commission might anticipate a more detailed and specific approach to the railway problem than has been essayed in this brief, our Association respectfully submits that the requirements of the case are not, in the present instance, for elaborate and concrete plans, of which there are a number already in existence. It is suggested that nothing would be gained by adding yet another to these itemized proposals, since any reorganization of our railways must in any event proceed from a complete review and re-analysis of the entire situation. Hence for this Association to advance a particularized railway policy, involving the consideration of precise financial and railroad technicalities would be both foolish and redundant. But, as the main principles and alternatives of the issue are clearly defined and can be appreciated by all and, since the final and essential essence of the problem (i.e., to preserve the status quo or to unify the railways) is ultimately a matter of public opinion, a representative viewpoint such as this brief constitutes may reasonably be regarded as a constructive and adequate contribution to the subject. Therefore our Association believes that its objectives may be properly and sufficiently expressed in the following submission:--

'TO THE END THAT PUBLIC EXPENSE AND CONSEQUENT TAKATION BE REDUCED, THE CANADIAN MANUFACTURERS' ASSOCIATION SUGGESTS TO THE COMMISSION THE ADVISABILITY OF RECOMMENDING THAT THE DOMINION GOVERNMENT GIVE IMMEDIATE CONSIDERATION TO UNI-



"IFICATION FOR ADMINISTRATIVE AND OPERATING  
PURPOSES OF THE CANADIAN NATIONAL AND CANADIAN  
PACIFIC RAILWAY SYSTEMS."



"Even at the risk of platitude or repetition, it is fitting to close with still another plea for objective and dispassionate consideration of the Canadian railway scene by every individual or collective interest concerned. The submergence of sectional or regional points-of-view in favour of a common cause is the essence of democratic government. If, in spite of great natural, strategic and economic difficulties, we have created and preserved in Canada, a unified national entity recognized and highly regarded as such throughout the world, surely we can compound and compromise our differences in such a relatively minor, if individually important, matter as the railway problem. Or is it possible that we have reached a stage in our national life where instinctive and local economic selfishness can outweigh the high principles and fundamental racial pride which motivated the Fathers of Confederation? Must we admit that the immemorial and in the long run effective, British tradition of accommodation and adjustment has run out in Canada? Is it to be displaced by a resurgence of the primitive philosophy "Each for himself and Devil take the hindmost"? However that may be, it is quite to the point to recall that the disintegration of democratic public and private life in other countries, has followed their inability or refusal to resolve their differences and seek common grounds on just such major economic difficulties. It might be said that this is an unnecessarily alarming inference. It can, on the other hand, be contended that it is realistic and backed up by current history.

To refer, in conclusion, to the Association





which sponsors this brief, it might be permissible to point out that no section of the community has more to fear from an inequitable, ineffective or abusive solution of our railway problem than the Canadian Manufacturers' Association."

COMMISSIONER DAFOE: Mr. Black, I infer from the statements on the first page that the Canadian Manufacturers' Association, in drawing attention to the expenditures aggregating \$78,000,000, divided between the cash deficit of the Canadian National Railways and unemployment relief, assume that the expenditures on unemployment relief will disappear, but that the cash deficit on the Canadian National Railways is to be regarded as constant. Is that the definite view of the association?

MR. BLACK: No, I should say not definite, Mr. Dafoe. The railway problem, however, has been with us much longer than the emergency relief problem. Consequently, it possibly takes that aspect in the presentation.

COMMISSIONER DAFOE: The cash deficit on the Canadian National Railways disappeared the year before the onset of the depression, and if you follow the story, or the record of the deficits from 1928 to the present time you find that it rose with the depth of the depression and now shows some signs of receding as the depression lightens. So that it is not impossible that when the depression goes the cash deficit will go too.

MR. BLACK: You refer to that as being no cash deficit in 1929, is it?

COMMISSIONER DAFOE: In 1928.

MR. BLACK: Appendix A shows a cash deficit there of \$5,000,000.

COMMISSIONER DAFOE: The railway figures show no deficit.



MR. BLACK: These figures were obtained from the Department of Railways and Canals, Dominion Bureau of Statistics, and Canadian National Railways.

COMMISSIONER DAFOE: There has been a controversy about that. The railway figures show there was no deficit that year. There is an assumption in this brief, set forth on page 3, that the policies suggested by the Duff Commission have been thoroughly tested and have failed; That is not the case, as a matter of fact.

MR. BLACK: It has been in operation for roughly six years, with the result that the annual saving has now grown to a million and three quarters per annum. We consider it insignificant.

COMMISSIONER DAFOE: I think it might be assumed that the essential suggestion of the Duff Commission was the <sup>an</sup> creation of/arbitral tribunal, which has never been created.

MR. BLACK: Did it not exist for a few years, Mr. Dafoe?

COMMISSIONER DAFOE: It was never in operation. In the recommendations they say, "providing machinery for cooperation between the two railways, with a view to improving their financial position." Then, further on, "machinery should be provided for cooperation between the two systems for the elimination of duplicate service and facilities, and the avoidance of extravagance." Then they provide for the creation of a Board of Trustees, which was carried out, and then there is the constitution of the arbitral tribunal. This tribunal had very extensive jurisdiction. It was provided that it could be invoked by either the Dominion Government, by any provincial government, or by either railway; provided for immediate appeal. Now, the arbitral tribunal experiment has never been tried, and might an argument not be made that the



limited results which come from the application of the Duff Commission recommendations are due to the fact that the arbitral tribunal never came into existence, and was not made operative?

MR. BLACK: That would hardly follow from even the name, "arbitral". It is not a negotiating board. "Arbitral" indicates a board that matters are referred to for settlement, whereas the essence of economy would be in the negotiating of cooperative matters.

COMMISSIONER DAFOE: The Duff Commission report was based on the idea that both railways, having had a somewhat painful experience with extravagance, - the Commission recognized that both railway systems had been extravagant, and would be willing to co-operate. But even if one railway were reluctant, the other railway could force co-operation by an appeal to the arbitral tribunal, and I would think it would be at least conceivable that the entire failure of the Duff Commission is due to the fact that this suggestion was not acceptable to at least one of the railways interested.

I would be obliged, for my own information, if I could get a clear definition of what unification involves. There are various phrases used, which seem a little vague, or at least, we cannot co-ordinate them very accurately. One phrase referred to is "Amalgamation"; another is "A non-competitive union", "A form of amalgamation, unification", "Preservation of existing property rights", then there is a reference on page 11 to "Physical processes of unification", then there are varied statements that the properties are to be kept distinct. Now, is the keeping of the property distinct <sup>bookkeeping</sup> a/ expedient, or is it the actual recognition of a physical separation?

Now, that is important, because if unification were attempted and the hopes entertained by its application were





to fail, would it be possible in four or five years for the government to resume control of its property intact and operated it, or are we creating a condition which cannot be revoked, and upon which we trust ourselves implicitly to the expectation that there will be enough expert ability available to make it operate; or will the country be confronted, in the event of failure, with an acceptance of the situation with its defects, or will then the only way out be State control, - the taking over by the State of the whole system? Is it an experiment or is it a definite adoption of a policy which cannot be changed?

MR. BLACK: The terms "Amalgamation" and "Unification" I think are used in the brief more or less analogously, Mr. Dafoe. In both cases they anticipate the amalgamation or unification for operative purposes only, and for management.

COMMISSIONER DAFOE: But would they be "Scrambled" to use a term that was used before the Duff Commission? Would you scramble their physical properties so that they could not be unscrambled?

MR. BLACK: It would be my own personal opinion only. You mentioned the term of four or five years. I should say in four or five years they could be unscrambled. If it came to a long period I would doubt the possibility of unscrambling them.

COMMISSIONER DAFOE: Would it be reasonable to infer that the general terms of the submission imply a step that cannot be revoked?

MR. BLACK: No, I would not say so. As you say, I think it is largely a bookkeeping matter; the ownership is retained on the books and the physical operation, jointly.

COMMISSIONER DAFOE: There are just one or two other points on which I would like enlightenment. It is stressed



that in view of the failure, it is now necessary to go on to some other equally effective measures; that is, the Duff Commission's recommendations having failed, it is desirable to go into some other equally effective measures. The effective measures which are suggested in this presentation are the very measures which the Duff Commission ruled out as undesirable. That is a factor which seems to me must be kept in mind if we give any weight to the judgment of the Duff Commission. They were very specific, they excluded from the idea the other effective measures which might be resorted to in the event of the failure of their suggestions, -- any establishment of a monopoly. I just want to make that comment. I should think that the other effective measures which they had in mind do not include the possibility of monopoly of any kind. Would you not think that would be reasonable from reading the Duff Commission's Report?

MR. BLACK: I would judge from our studies here, tempered by an interpretation of the public opinion at the time, as we state here, in the years since that time, it has been very considerably changed.

COMMISSIONER DAFOE: Well, of course, there is suggested here that if we had the exhibits of the Duff Commission produced before us, and were to study them, we would reach a different conclusion on that point. That is the suggestion in this submission.

MR. BLACK: No, I should say not; not from a study of the Duff Report only.

COMMISSIONER DAFOE: No, but as part of the case.

MR. BLACK: I might say we have here a list of all the official reports, books, and public addresses, which might be of interest to you, and which have been studied in connection with this brief.

COMMISSIONER DAFOE: I think I am familiar with them.



what term you use, - even assuming you have that and that you have a board such as you suggest, do you think it would be possible to run our railways along business lines? It would seem to me if we could do that it would be reversing the whole history of our railways heretofore.

MR. BLACK: I do not recognize the difficulties that you have in mind.

COMMISSIONER ANGUS: Let us take a hypothetical instance. Supposing serious political difficulties arose in any particular part of Canada, - take my own part of Canada, the Maritime Provinces, - is it not quite conceivable that Parliament might interfere with the operation of a railway, even if it were a single enterprise?

MR. BLACK: Other considerations do apply and we stress the importance of keeping it free of politics, and this omnipotent Board that we have suggested, of three, along the lines as suggested by the Duff Commission, would have complete powers, I should say, as the Railway Commissioners of to-day have.

COMMISSIONER ANGUS: But Parliament, under our system of government, would still be the supreme authority, would it not? I do not see how we are going to eliminate that.

MR. BLACK: The Board of Railway Commissioners naturally submit their reports to Parliament and of course Parliament, having complete power, could step in as and when they see fit, I should say.





COMMISSIONER DAFOE: You cannot escape a certain control by Parliament.

MR.BLACK: Quite.

COMMISSIONER DAFOE: Because if you create a board like that, which is self-perpetuating, which has extensive powers, all that parliament has to do is repeal the Act creating them and there you are.

MR.BLACK: Quite.

COMMISSIONER DAFOE: You say in your brief:

"Considered in the broad historical sense, unified railway operation patently appears as the next, if not the ultimate, step in a quite perceptible evolutionary process."

Is there any country in the world where there is a railway monopoly which is not controlled by the state? Have you any knowledge on that point?

MR.BLACK: No.

COMMISSIONER DAFOE: I speak subject to correction but I do not think there is a country in the world where there is a railway monopoly which is not controlled by the state.

MR.BLACK: I know of no such instance.

COMMISSIONER DAFOE: So the evolutionary process is not very obvious to me.

MR.BLACK: In the final analysis of course you have got the control by the state in any unified set-up here.

COMMISSIONER MacKAY: In making those observations I did, Mr.Black, I did not mean to express any opinion one way or another on the merits of unification, I simply wanted to point out what seems to me a fallacy in a great many arguments for unification.

THE CHAIRMAN: Then, Mr.Black, No. 8.

MR.BLACK: No. 8, Mr.Chairman, yes.

Submission No. 8, Mr.Chairman and Commissioners:



"There will probably be very general agreement that the most disturbing feature of our economic affairs is their tendency to operate in cycles, with periods of acute depression closely succeeding eras of intense activity. It is self-evident that every conceivable interest of the community or the individual requires that the business and industry of the country should proceed in an equable and stable manner. Our economic and social organization is based upon this presumption, consequently the abnormal trends of business necessarily involve hardship, waste and confusion in both these departments of our national life. It is, of course, in terms of periodic widespread unemployment that the evils of instability become most clearly and critically evident. In recent times the fluctuations of economic activity have been so extreme that the problem of providing for those who are eliminated from service during sub-normal periods, has, on occasion, reached the proportions of a national emergency.

This condition of emergency arises not only from the simple and direct cost of providing relief, but also from the more significant fact that this cost is not balanced by a corresponding increase in national wealth in the form of natural production, manufacture or service. Thus the cost of unemployment, is, in effect, diverted from its proper purpose of exciting the economic machine, with the result that further unemployment is induced and a vicious cycle of events is instituted and continues until the succeeding period of expansion sets in. Unemployment is hence a cumulative and compounding economic ill and any measure which might serve to modify its



periodic intensity would wield corresponding influence in the stabilization of business in general.

The difficulties which have confronted responsible public authorities in recent years, in providing for the unemployed, are common knowledge. The emergencies have been met by emergency measures such as rapidly increased borrowing, excessive taxation or the hasty inception of public relief works. All these expedients have obvious disadvantages. The general increase in borrowing and taxation intensifies the prevailing financial stingency and so helps to perpetuate the process of economic contraction. The sudden and relatively unconsidered increase of public works inevitably results in various forms of waste, for public authorities are, under present conditions, invariably lacking in the personnel and physical equipment necessary to conceive and execute large and instantaneous expansions in their works programmes upon sound and economical lines. Furthermore, in such cases they must use the unemployed labour whether it be suitable for the type of work projected or not and the final value of the undertaking to the community is inevitably impaired.

The cardinal defect of spontaneous emergency measures to deal with unemployment is that they do not oppose or modify in any way the underlying economic variability but rather tend to intensify it by diverting credit from private enterprise at those very times when it can least be spared. Since public authorities cannot evade or delegate their social responsibilities, their problem therefore is to provide for periodic unemployment in such a





manner that they will not be under the immediate necessity of repressing the already flagging economic activity which created the unemployment in the first instance. Their objective should rather be to sustain and bolster this activity to forestall the access of further unemployment upon their hands. It is clearly evident that public authorities have at their command but one means of so doing, and that is by the prosecution at such times of preconceived and prefinanced works of an economically justified and necessary nature.

Implicit in this conception of the situation is the existence of reserves of works to be undertaken and of funds or credit to pay for them, accumulated during prosperous times and expended during depressed periods. In view of this it will be of special interest to determine as accurately as possible what the expenditures upon public works in Canada actually amount to, as well as to learn in what manner these expenditures are made. It would also be relevant to determine what proportion of all Canadian 'works', in the sense of all construction and engineering projects, is represented by public works, in order that their potentialities as a stabilizing influence upon these industries and hence upon the whole economy may be at least considered. The chart on page 4 (Fig. 1) indicates total and public expenditures upon all forms of construction for the years 1919 to 1935 inclusive and is based upon data compiled under the auspices of the Canadian Construction Association. It should be said that the problem of compiling such data is not of a simple nature



for the usual trade sources of such information do not completely differentiate between public and private projects. There exists also considerable interlocking between the various legislative and municipal bodies and much diversity in presentation of accounts and records. Included in the category of public works are buildings, sewers, water supply plants, harbour, dock and river works, disposal plants, bridges and subways, parks and many miscellaneous projects. Also included in public works, in this instance, are the building and engineering construction of the two major railway companies. This is for the reason that the Dominion Government by virtue of powers invested in the Board of Railway Commissioners exercises control over the expenditures of the Railway Companies upon such matters, which thus become, for all practical purposes, public works. The public expenditures shown must, therefore, be regarded as close approximations only, but there is every likelihood that in so far as they are not exact, they err on the side of understatement for it is patently difficult, if not impossible, to ascertain and include the minor expenditures of all such localized rural bodies as township or county authorities. In any event, the chart is sufficiently accurate for purposes of broad comparison.

The period of 1919 to 1935 is presented for the reason that it represents a complete economic cycle from depression through prosperity back to depression and also because it excludes the abnormal war period. It is at once apparent that public works constitute a considerable proportion of all construction work and in spite of the fact that the



latter years include considerable public expenditures on emergency relief works, that the trend of public expenditures closely follows that of the country as a whole. In other words, we have simply followed the prevailing economic trend, increasing our expenditures upon public undertakings as general business expanded, and retarding them as the tide of economic activity receded. Such isolated and hasty attempts as have been made to stem the declining phase in the form of emergency relief works, have been so inadequate in volume as compared to the extent of public expenditures in prosperous years, that their effect as a stabilizing influence is barely perceptible. Obviously, no attempt has been made during the period in question, to withhold public undertakings in anticipation of the succeeding unemployment emergency. Public works which, as has been noted, are the only available means of publicly countering the progressive decline in employment during periods of recession, have actually been carried out in a manner which could hardly be better calculated to precipitate and intensify the problems of depression, by inflating the preceding boom.

During the period under review, the total annual expenditures upon public works in Canada and the percentage of total construction which they constituted in each year were approximately as follows:

Will I read those, Mr. Chairman?

THE CHAIRMAN: No, we have the figures before us, - unless you want to comment on any of the figures?

MR. BLACK: Well, that is covered, I think, later. You will note in passing or looking at the figures, that the big building construction years were from 1925 to 1930. Those were the heavy construction years in Canada,





and during those years the government expenditures swung from \$77,000,000 up to \$185,000,000, trailing behind the boom in private building by about a year or two years, merely reflecting the usual inertia that applies to government operations. The desire to keep absolutely in step is more or less evident, I think.

"Averaged over the years indicated, expenditures upon public works have amounted to approximately \$100,000,000 annually or to 30% of the average total expenditures upon construction. Upon the arbitrary but reasonable assumption that public works could be retarded to this long-term average during such years as 1929-30-31 when actual expenditures were close to \$200,000,000 it is apparent that a reserve of public works comparable to several years of average intensity could be rapidly accumulated. But, perhaps even more striking than the extent of the public expenditures shown is their extreme variability within relatively short periods. Thus between 1925 and 1930 the annual national outlay upon public works increased from \$77,000,000 to \$185,000,000 or by 140 per cent. Between 1930 and 1933 it decreased from \$185,000,000 to \$35,000,000, a contraction of almost four fifths in the course of three years. In one year, 1931-32 it actually declined from \$170,000,000 to \$60,000,000. Such large and precipitate variations emphasize the intensifying influence which our public works have exercised upon the similar and simultaneous fluctuations of business in general. But, more significant still, their extreme inconstancy indicates that they can be rapidly and materially increased or reduced at will and that they would therefore, be fundamentally amenable to some form of



control, intended to utilize them as a stabilizing rather than a disrupting economic factor.

The fallacy of executing public works in conformity with the irregular and irrational trends of general business is further emphasized by the fact that the present and prospective social requirements of the community upon which public works should properly be predicated, are not sporadic or intermittent in their occurrence, but are rather continuous, increasing and long-term in character. The need for permanent public improvements seldom arises immediately and without previous indication of the necessity. Such social processes as increase of population, development of new areas or industries or the adoption of new mechanical conveniences requiring the provision of public facilities can usually be foreseen and anticipated. This is also the case with respect to provision for obsolescence and depreciation upon which large public expenditures must necessarily be made.

Thus we are led inevitably to the conclusion on both social and economic grounds, that the policy of increasing and accelerating the execution of public works during prosperous years and withholding or retarding them during depressed periods is fundamentally mistaken. Obviously what is required is a preconceived, long-term and consciously planned system of public works control, designed to continuously adjust the volume of public works inversely to the fluctuations of private activity. Only in this way can the influence of public works expenditures be utilized to counteract the abnormalities of the economic cycle and to protect public authorities



from the periodic incidence of mass unemployment which they cannot otherwise provide for without hastening and extending the general economic deflation.

Inherent in premediated and anticipatory planning of public works is the conception and preparation in advance of works which can be deferred, or which exceed the immediate requirements of the community and can consequently be held in reserve until the need for them becomes evident. Financial provision is, of course, an essential element in this preparation and it may indeed be said that, in the final analysis, the problem of conserving public works is one of anticipatory financing. In this respect public authorities are in a somewhat different position to private organizations, which in prosperous times can place to reserve any surpluses which may remain after discharge of all obligations. Public authorities are impelled by custom and political necessity to immediately disburse unexpended balances in the form of reduced taxes or public improvements. Whatever the merits of this procedure may be, it is very certain that it is inseparable from the popular form of government. The conception of an elected authority, whether it be federal, provincial or municipal, accumulating a considerable cash reserve probably to be disbursed by a succeeding, and politically opposed authority cannot be admitted into any realistic consideration of the problem. However, public authorities having powers of taxation, possess one important financial resource which is denied to most

... ..  
... ..  
... ..

... ..  
... ..  
... ..

... ..  
... ..  
... ..

... ..  
... ..  
... ..

... ..  
... ..  
... ..

... ..  
... ..  
... ..

... ..  
... ..  
... ..

... ..  
... ..  
... ..

... ..  
... ..  
... ..

... ..  
... ..  
... ..

... ..  
... ..  
... ..



private concerns, namely, their extensive and advantageous borrowing powers. Undoubtedly, it would be by exercise of these powers that a large volume of public works would necessarily be financed in periods of depression. But the simple procedure of borrowing heavily during these periods would be the very antithesis of a regulatory or stabilizing public works policy if it were not preceded by some compensatory and preparatory measures during prosperous years. These measures would obviously consist of the restriction of borrowing in such times and the accelerated redemption of previously contracted debt by the application thereto of budgetted surpluses, and in general the pursuit of a financial policy calculated to facilitate borrowing at favourable rates of interest during the depressed periods when public works would be expedited.

In addition to the physical and financial planning and preparation which the conservation of public works would involve, there is also to be considered the important element of 'timing' that is, the acceleration or retardation of the projected works in 'opposition to the prevailing economic trend. This is the essence of the problem, for it is by the timely and adequate adjustment of the volume of public works that their potential influence can be most effectively and beneficially exercised. This 'timing' factor implies the necessity for constant observation and analysis. Decisions as to the speeding up or slowing down would necessitate the continual compilation and study of relevant economic indices. In short, the conservation or regulation of public



works pre-supposes the existence of a permanent, specialized and technically and financially competent agency for its proper execution. Whether or not most public authorities are possessed of the necessary administrative and technical personnel, it is clearly apparent from the record of past performance that they have never availed themselves of it to the desirable end of setting up reserves of public works in anticipation of future social emergencies.

It would be interesting and perhaps informative to explore the possibilities of an arbitrary and quasi-ideal application of public works control to the period 1919 to 1935 which has previously been cited. The intention is not to proscribe or suggest a form of procedure, for the retrospective application of the theory is in no way analogous to its proper execution. But the essay may at least serve to demonstrate the potentialities of regulated public works and to indicate in an approximate way the severity of the adjustments which might be necessary in their prosecution. There is undoubtedly a minimum below which it would not be possible to reduce annual public works expenditures without loss of essential public services or the depreciation of existing physical assets. This minimum cannot conceivably be more than the lowest annual total of all public works during the period under consideration. This total is that of 1933 - \$35,000,000. To ensure a conservative estimate, - let it be assumed that the irreducible minimum of public works in any one year amounts to \$40,000,000. This is a liberal allowance since it



amounts to 40 per cent of the average annual cost of public works for the period, which was in the neighborhood of \$100,000,000. If then in each year we deduct the actual public works expenditures from the total of all Canadian construction expenditures and add to the result the minimum of \$40,000,000, we obtain a figure for each year which represents total expenditures before the application of public works reserves. The difference between actual and minimum public works expenditures represents the maximum public works reserves which could have been accumulated during those seventeen years, upon the basis of the original assumption. In re-apportioning the available reserves, the years which exceed the average in total construction expenditures may be disregarded. Obviously no more than the already included minimum of public works would be executed in such years under ideal conditions. In allocating the reserves to the sub-average years, they should assuredly be applied in such manner as to bring the total of construction expenditure in each of these years to the same level. This is what an ideally conceived and perfectly executed policy of public works control would propose to do, and, of course, succeed in doing.





"The effects of this retrospective application of the principle of regulated public works in contrast to the condition which actually prevailed are shown graphically on the charts on page four (figures I and II). Though the peak of total construction from 1926 to 1930 has been materially reduced in the idealized instance, it still transcends the equalizing powers of public works, even though they have been applied to the utmost possible extent. However, it should be recalled that the contraction of public works to the minimum during those years would have induced some contingent reduction in the volume of private construction, thus tending to equalize the total volume to a greater degree than is indicated on the chart.

But undoubtedly, the most striking indication which appears is, that to sustain the level of construction at a high and consistent level during the latter and rapidly declining years of the period, it would merely have been necessary to retard or withhold the great volume of public works, which was carried out at the very height of the boom, for some two or three years, and then to have proceeded with it in approximately the same volume and over a comparable period of time. The indicated total of public works for 1933 is over \$200,000,000 in the potential case as against \$35,000,000 actually expended. Had we had in this country in 1933 but one half of that total available for public works our unemployment problem would have caused us no concern even in that year of economic eclipse. The same might be said of any year from 1931 to 1935.



"A glance at the charts suffices to indicate that even under the extreme degree of control and regulation assumed for purposes of this tentative and speculative analysis, no more rapid or extensive readjustments would be imposed upon the execution of public works than they have been subjected to in the past without any considered or beneficent purpose.

Even admitting that the reservation of public works could not be applied to the degree assumed in this hypothetical instance, it is nevertheless evident that if it were effective to the extent of 50 per cent of its potentiality, the stabilizing effect and protective value of the policy would be of exceeding economic and social benefit to public authorities and the community alike. Thus had public works expenditures been retarded to the level of \$80,000,000 during the five years 1926 to 1930 inclusive, coincident with a policy of debt reduction in anticipation of future borrowing needs, there would have been available for the immediately succeeding years of intense depression, a reserve volume of works and credit to the extent of some \$320,000,000. The value of an economic stimulant of these proportions during the more critical years of the recent depression would have been incalculable.

A most significant feature of the premeditated planning and control of public works is the fact that its beneficial influence would, by the very nature of such works, be exercised upon that department of the national economy which most requires and can best disseminate the resulting stimulation,



"that is, upon the capital or durable goods industries. It is well recognized that in depressed times, the heavy industries which provide capital or durable goods for service over considerable periods of time are afflicted by reduced demand and unemployment to a much greater extent than the consumable goods industries, whose products, such as food and clothing, must constantly be replaced at very short intervals. An authoritative American estimate finds that 90 per cent of all depression unemployment originates in the durable goods industries and that of this 90 per cent, three quarters, or 75 per cent, is attributable to the construction industry. The construction industry is, in itself, perhaps the most characteristic of durable goods industries for its products and invariably designed to serve for several generations and in times of economic stress the demand for them can be contracted almost to the vanishing point. This severe contraction in turn leads to excessive activity in prosperous times with the result that the construction industry evinces, in its most exaggerated and destructive form, the fundamental economic curse of instability and excess. This is amply borne out by the curves of total construction expenditures from 1909 to 1935 which appear on the preceding charts. But it is in its secondary effect that the variability of the construction industry is most socially and economically disruptive, for construction is in effect merely a centralization of a great variety of durable goods, evolved from a multitude of natural products. Practically all the durable goods in-





"dustries of the country are dependent in whole or in part upon the construction industry, for a market for their products, which in turn utilize a very large proportion of the output of our mines and forests. On the basis of two indirect and one direct construction worker, it has been estimated that upward of 1,000,000 employecs have, in peak years derived their livelihood in whole or part from construction. Since this represents almost one third of our working population, it is evident that the exceptionally severe depressions of the construction industry are a major factor in the inception and continuation of our unemployment emergencies. Consequently, since public works consist almost exclusively of construction in some of its various forms, the execution of a considerable volume of them during economic decline would not only provide direct construction employment but would indirectly sustain the general level of business by exerting a beneficial influence upon a multitude of varied and widespread contributory industries. In other words, the cumulative or progressive process which induces unemployment under our present instinctive method of executing public works would be reversed to progressively excite employment, if these works were planned and premeditated to that end.

It may be contended and cannot be denied that public authorities in general are no more lacking in vision and perception than the public at large, in the conduct of their economic affairs. But it is necessary to recall that in times of depression, private organizations can reduce their responsi-



"bilities and commitments by reducing employment, wages, inventories and operations, while public authorities must assume a correspondingly increased burden without hope of recourse or abatement. Hence there is an incentive and necessity for the accumulation of reserves of work and credit by public authorities which does not prevail for private enterprise.

Obviously the planning, budgeting for, and timing of public works in the manner proposed would involve informed and continuous observation and guidance. Relevant economic indices would be required, upon which to base the necessary periodic readjustments in the volume and tempo of public works. There would be required a constant accumulation of data and records to constitute a factual background for decision which would necessarily be, at least in some instances, in the nature of projections into the more immediate future. It would be necessary to correlate budgets and debt redemption to the physical volume of works projected from time to time. Undoubtedly the most likely, if not the only, statistical agencies in Canada competent to carry out, or to be extended to carry out such continuous study are those under the jurisdiction of the Dominion Government. In any event, this is a matter in which the Dominion Government, as the largest single executor of public works in Canada and by virtue of its natural primacy, should take the lead. The possibilities of realizing even in part the potentialities of regulated public works as a stabilizing economic influence are of such significance that the question



"is one of national import and concern.

While it would be desirable, or indeed, essential that not only the federal but all public authorities should subscribe to the policy of advisedly regulating their public works, it would not be necessary for each of them to possess the required statistical machinery, if the Dominion Government were to establish a national coordinating bureau to centralize the collection, study and circulation of the basic information. The existence of this body, in conjunction with the practical example of regulated federal works, would be a powerful incentive to other authorities to place their works expenditures upon a similar rational and self-protective basis. It is in fact conceivable that many private organizations, appreciating the benefits of a premeditated long-term policy, would avail themselves of the opportunity which the existence of a source of relevant and authoritative information would afford. If the stabilizing influence of planned public works were to be reinforced at least partially by the construction expenditures of such quasi-public institutions as the chartered banks, insurance companies and other nation-wide organizations, the results would immeasurably transcend the cost of any exploratory or permanent organization which might be required.

The national planning of public works and international cooperation in respect of public works were discussed at the International Labour Conference at Geneva in June, 1937, and the conference adopted the resolutions which are shown in Appendix





"Since public authorities are, in the last analysis, but a reflection of the public opinion which elects and sustains them and since the conclusions and recommendations of this Commission will inevitably be the subject of intense public interest, it is respectfully submitted that the regulation and control of public works in the interests of economic stability merits consideration by this Commission in the formulation and publicizing of those conclusions. "

COMMISSIONER ANGUS: Mr. Black, I assume that this proposal depends upon one having a good deal of confidence in forecasting?

MR. BLACK: Without a doubt, yes.

COMMISSIONER ANGUS: Do you think that the intensity of the recent depression could really have been forecast.

MR. BLACK: Not the intensity, but by going back over the records for the past 75 or 80 years, we know that in the past these cycles in building construction have occurred every eighteen or twenty years. The last one in Canada occurred in the early 'teens, I believe. As is pointed out in the brief, you could not expect the ideal condition. As I suggested, even a partial hold-back of that money which is poured in by the governments right on the heels of private expenditure--it would have helped tremendously during the 30's.

COMMISSIONER ANGUS: Would you have the courage of your convictions to the extent of taxing private construction in the boom years and bonusing it in the bad years?

MR. BLACK: I do not think that is necessary. We have not so intimated, but the fact that the government



spends so much money on construction during the boom years is merely a reflection of the increased revenues deriving from improved business conditions.

COMMISSIONER ANGUS: The reason I was bringing up the other question of taxing private construction at one time and bonusing it at the other, is that it is possibly a little more sure to influence, that is, by price differences, than a government is to control by political methods.

MR. BLACK: Our study was never carried out to any such extent.

COMMISSIONER ANGUS: Your proposal is really linked with the provision of very heavy sinking funds to meet your purpose, is it not?

MR. BLACK: Yes, that would be so.

THE CHAIRMAN: I think everyone will agree that if the plan which you have suggested could be worked out it would be a very great improvement over what is the normal procedure in public expenditure during good times. I am afraid that the difficulty you pointed out of retaining the surplus in periods of good times, might also interfere to some extent with the profit these reserves create by paying for public debts?

MR. BLACK: It presents difficulties, without a doubt.

THE CHAIRMAN: It does present difficulties. Theoretically, it would be most favourable. I suppose every Commission which has investigated or reported upon unemployment, has stressed the importance of governmental expenditure in periods of depression and a restriction of these expenditures in periods of prosperity. It is a sound view if it could only be put into practice.

COMMISSIONER ANGUS: There is just one theoretical



difficulty, as I see it. If you stabilize economic conditions by this means of prediction from the past, you would no longer be safe because you would be predicting from an unstabilized past into a stabilized future.

MR. BLACK: That is right, but you would get the benefit of it for a year or two at any rate.

THE CHAIRMAN: Have you any questions which you would like to ask, Mr. St. Laurent?

MR. ST. LAURENT: Just one or two, my lord?

BY MR. ST. LAURENT, of Mr. Black.

Q. Are those charts supposed to indicate the expenditures for highway construction? A. Yes, public expenditure and engineering construction would come within that.

Q. They would be included in the figure given here as the total amount of public works expenditure from 1919 to 1935? A. Yes.

Q. But that would mean only the new construction, then, would it not? A. That would mean largely the Dominion and provincial. As we said here, the county and township construction is not included.

Q. I think in the brief we had yesterday it was shown that the annual operating expenditure for the province's highway system was something over \$40,000,000. A. That may be, Mr. St. Laurent; it is, of course, as we state, difficult to get these figures, and they will err on the side of under-estimate.

THE CHAIRMAN: I think, Mr. St. Laurent, am I not correct that the annual operating expenditure of the province included the sinking fund and interest on the highway expenditure?

MR. ST. LAURENT: Yes, it did.





BY MR. ST. LAURENT:

Q. There was only about \$25,000,000 which was actually expended from year to year. Those figures are supposed to take into account the engineering and construction carried out by the provincial government on the highway system? A. That is correct.

Q. Might it not be difficult to ask a locality to wait for a depression period before getting a new highway?

A. Yes, that is so. We point out that the ideal condition is hard to attain, but even 50 per cent of that would be of tremendous value.

Q. There are some of the public works which are looked upon, when they are performed, as absolutely essential to improving the public's condition, absolutely essential because of the services they are going to perform for the public, that might not be subject to the same control?

A. Possibly not, I think our past records indicate that these boom times occur every 8 or 20 years.

THE CHAIRMAN: When we sat in Ottawa, one of the briefs presented on that occasion referred to the incidence of the tariff on the prairie provinces. A question has arisen since whether it existed at that time and I wonder if you could give us any light upon it, that is the incidence of the trade agreement as part of the tariff policy of the country on the different sections of Canada.

MR. BLACK: I believe Mr. Bristol, the manager of our tariff department could answer that question better than I could.

MR. BRISTOL: As to the incidence of tariff protection which has been provided for Canadian products in other British countries--the tariff protection applies



principally to Canadian basic products such as fishery products, farm products like wheat, forestry products like timber and lumber, and mineral products. We have a preference in the United Kingdom of six cents a bushel on wheat, practically six cents a bushel, it is so much per quarto. It averages about six cents per bushel. There is a preference ranging between \$1. and \$1.25 per barrel on fresh apples. All of these preferences have been of immense benefit to the basic industries of Canada. The producers of fresh apples are constantly saying so in the press. The business publications in the United Kingdom are setting forth the advantages of these preferences to Canada, and in return the advantages which business interests in the United Kingdom derive from preferences which they enjoy in Canada. Australia has the same arrangement.

Australia, for example, before we had a trade agreement with Australia, practically all of our raisins and currants were purchased from California, and none from Australia. At the present time, practically all of the raisins and currants purchased by Canada are purchased from Australia. In return, Australia has given protection to Canadian canned salmon, timber and lumber products of all kinds, and newsprint. These exports from Canada have been benefited. Furthermore, the same products, particularly timber and lumber have benefited by the tariff protection granted by the United Kingdom in the trade agreements of 1932, which were re-completed and re-negotiated at the last session of parliament. I was reading in an outstanding United Kingdom trade publication the other day that these tariff preferences granted by the United Kingdom to our forest products have virtually transferred the purchase of timber products



from the Pacific coast of the United States to the Canadian producers of timber.

THE CHAIRMAN: Well then, is the effect of your information that the trade agreements did substantially benefit the primary or basic interests through these preferences?

MR. BRISTOL: Mr. Chairman, 95 per cent of Canada's exports to the United Kingdom are food products or materials for further manufacture in the United Kingdom. Only 5 per cent of our exports to the United Kingdom represent consumer goods, other than foodstuffs. Practically all of these shipments to the United Kingdom have the advantage of the preference which the United Kingdom extended to our Canadian basic producers.

THE CHAIRMAN: Mr. Black, we thank you for the presentation you have made to us this morning, on these very important questions. The brief will receive our careful consideration. The brief is in three parts marked as numbers 6, 7, and 8. Did we mark these with separate exhibit numbers before?

MR. ST. LAURENT: Yes, I believe so.

THE CHAIRMAN: Then, number 6 will be exhibit number 269, number 7 will be number 270, and 8 will be exhibit number 271.

EXHIBIT NO: 269: Brief of the Canadian Manufacturers' Association (No. 6)

EXHIBIT NO. 270: Brief of the Canadian Manufacturers' Association (No. 7)

EXHIBIT NO. 271: Brief of the Canadian Manufacturers' Association (No. 8)





## AFTERNOON SESSION

The Commission resumed at 2.30 p.m.

THE CHAIRMAN: The next brief is the Dominion Mortgage and Investments Association's brief.

MR. J. H. LITHGOW, President, was called:

MR. LITHGOW: Mr. Chairman, and Commissioners, as President of The Dominion Mortgage and Investments Association I wish to say that, in the opinion of our Member Companies the results of the deliberations of your Commission should prove to be of important and lasting benefit to Canada and its citizens. Consequently, our Association has welcomed the opportunity of making submissions to you. We hope that they will be of some service to you, and I would like to say that if there is any supplementary information which you desire of us if in our power we will be glad to furnish it.

Part 1 of our brief was submitted at the Ottawa Hearing, and we are to-day presenting Part 2. It is somewhat longer than we had wished it might be, but we found it difficult to make it any shorter and cover the matters which we wish to cover, in any sort of comprehensive way. It is the result of considerable time and thought spent by many members of our associated companies, and more particularly by our Secretary-Treasurer, Mr. Jules Fortin, and our General Counsel, Mr. T. D'Arcy Leonard, K.C.

THE CHAIRMAN: They are both thoroughly posted, Mr. Lithgow, on matters relating to your association.

MR. LITHGOW: We believe so, Sir, and with your permission I would like to ask our General Counsel, Mr. Leonard, to present our brief to you.

THE CHAIRMAN: Thank you, Mr. Lithgow.

MR. T. D'ARCY LEONARD, was called.

MR. LEONARD: Mr. Chairman, and Members of the Commission, I think you will probably be relieved if I do not attempt to read the brief in full. I shall attempt to



read only so much as is necessary for the development of the subject, but if at any time I seem to be overlooking anything, or there are any questions which the Commission would like to ask, I would be very glad to be interrupted.

In Part 2 we deal particularly with the credit position of governments in Canada, in the introduction, and in section A., on public credit are set out certain principles which are quite familiar to the Commission and it is not necessary for me to read them in full. They are there for the purpose of developing the thesis that the submission sets out. On page 3 there are further remarks with respect to public credit. The last two paragraphs read as follows:

"In financial transactions, credit includes both ability and willingness to pay. Inability to pay may at times be unavoidable, but the disposition not to pay, if the ability is there, is not, and never can be, the course of honour or of wisdom. It is through credit that we have built up an ever-increasing store of material goods and a higher standard of living. Without it, we could not have progressed as rapidly as we have, nor obtained the comforts and the possessions to the degree which we now enjoy. If we destroy or impair its essential features, we shall but retard our progress.

Canada is still a young country. There is a great development ahead of it. Even now there is need for more durable goods, whether of a public or private character, for houses, highways, factories, and for other permanent improvements that add to the employment and productive capacity of our people and their social welfare. Public credit is essential to that development."



Then page 4, section B, deals with the sources of long term loans.

"It is the surplus earnings, the savings, of the people that create their fixed and permanent assets. The incentive to the individual to conserve his surplus earning is that it may be available to him later in time of need, in sickness, in unemployment, in old age, or for his family at time of death. The saving of the average individual may be small, but the aggregate savings of money become a potent factor for the use and benefit of all citizens of the community.

It is through organizations such as life insurance companies, loan companies and trust companies that these small savings are mobilized to perform two functions in our national economy. The first is to guard those savings and to return them with interest to their owners when they shall need them; the second is to make them available for the use of governments, industry and individuals for the building of our houses, factories, roads, schools, universities, churches, and other capital assets that we require for our material, intellectual, and spiritual development.

There is a tendency to take these institutions for granted without appreciating the value of the function they perform in the national economy. Without that function, construction of our capital assets is retarded, employment decreased, thrift and saving discouraged, individuals have smaller reserves against the hazards of life, and greater burdens thereby fall upon the State."

Turning to page 5, figures are set out showing how these savings are mobilized; the average premium per year





paid by policy holders being \$60.00, and many as small as 25¢. In the case of "Loan and Trust Companies, there are as many as 200,000 Canadians who have entrusted their earnings to these companies, the average amount of a deposit account being about \$365, and a term obligation about \$1500..

"In addition to the mobilization of internal savings, our Canadian institutions have merited the confidence of investors in Great Britain, United States, France, and other countries, and thereby have been able to bring in funds from abroad. This increased supply of investment capital has helped to build up the permanent assets of our country, but the obligation to repay rests upon the institutions." The last line on page 5:

"The two functions they perform are essential to our maximum development; first, the encouragement of thrift and provision for the future on the part of our citizens, thereby relieving the state of that responsibility and at the same time strengthening character through the qualities of self-reliance, industry, and initiative; and second, the application of their savings through the process of investment in the construction of desirable permanent assets."

Section C. deals with the need for maintenance of credit.

"The credit of our public bodies depends upon confidence in their ability and willingness to carry out their promises to pay.

When an investor has handed over his money to the government, he has performed his part of the bargain, and he is then dependent upon the government to carry out its promise. The result is that



the cost of credit varies inversely with the degree of confidence that the investor reposes in the government. The greater the confidence, the less is the cost of credit to the government, and vice versa. And one of the most important elements in determining the extent of confidence, and therefore the cost, is the past record of the government. Has it defaulted in the past? If so, under what circumstances, and what was the ultimate outcome? Was there any question of good faith?

Particularly in the case of a sovereign state is the element of good faith a prime consideration. Even though a sovereign state may be financially able to perform its obligations, an investor knows that by the exercise of its sovereign powers it can evade payment and leave him without legal remedy. When such things have happened, the temporary advantage of default has been dearly bought at the price of impaired credit."

On page 7 there is some reference to the situation in South America, and the default in the States of the United States in the forties. Then the second paragraph from the bottom:

"The conclusion we wish to draw is that in dealing with our Canadian problems in public finance and credit, it is part of wisdom to take the long-sighted view. Temporary expediency may suggest an easy way out of a government's difficulties but from the standpoint of the future of our country we can pay over and over again in increased cost of credit or by actual destruction of credit, and by retarded material progress, for a present momentary relief.

For these reasons we do think that we cannot



stress too strongly the need for the maintenance of public credit in Canada. There have been defaults by a number of municipalities, and default and repudiation by one province, and there are other public bodies facing difficulties; but if we keep in mind the importance of credit in our economy, and the need for maintaining it, then there are certain principles which we can apply to those situations.

Your Commission's reference is concerned with matters affecting public finance and credit. In dealing with them, we believe that the most important result that can be attained by your recommendations will be the establishment of public credit in Canada on a sound and strong basis for the future."

Section D. deals with the credit of the Dominion Government.

"In considering the credit of our various public bodies in Canada, it is our submission that it is the credit of our national government that is paramount and should be maintained at all costs. Many reasons present themselves to justify this position. Our pride in Canada as a nation impels us to maintain our national prestige. From a more material point of view, it is our federal government that is charged with the greater responsibilities that affect our national prosperity. The regulation of trade and commerce, of tariff, of transportation, and of our monetary and banking systems, belong to the Dominion. And finally, it is the Dominion that is charged with the responsibility that may be the most vital of all, the defence of our country. It would be the





greatest disservice that could be done to Canada to weaken the finances of our federal government so as to leave it unable to perform this duty.

Peace-loving as we may be, we cannot shut our eyes to facts; to maintain our nationhood and our membership in the British Commonwealth of Nations may require heavy expenditures by our federal government. This requires that in times of peace there must be a reserve of taxing power and of borrowing power in the Dominion that can be drawn upon in time of emergency. There is only so much taxing or borrowing capacity to any nation, and the more that is required for local and provincial sources the less there is for the Dominion. How great a reserve is needed can be partially judged by looking back over the period since 1914, and realizing that the war and its aftermath have cost the federal government over \$3,500,000,000 and will continue to cost us millions for years to come."

Then follow some instances of how the preservation of Dominion credit has helped us during the last few years, and a reference to the fact that in 1921 our debt was \$600,000,000 less than it is now, but that the interest we pay on our debt is \$12,490,000 less than we paid then.

"The effect of the saving is even more apparent when shown on a per capita basis. In the year 1921 the interest paid per capita was \$15.88; for the year 1938-9 it is estimated to be under \$11.43; so that the individual taxpayer to-day is receiving a saving of 28% in comparison with 1921, due to the reduction of interest on the national debt. A further saving has been effected in connection with the debt of the government-owned Canadian National Railways.



"These figures show forcibly what maintenance of credit means in savings to a country. If our Federal Government had not maintained throughout the depression a determination to honour its obligations, or if it had allowed the slightest suggestion of not keeping faith, it would have cost us millions of dollars more in interest."

Then follows a comparison with Australia, the reduction of its internal debt interest by  $22\frac{1}{2}\%$ . The comparison shows the reduction in June, 1936, in Australia, to 3.93%. In Canada, it is 3.76% in 1937. For the year ending March 31st, 1938, it is estimated to be less than 3.60%, a drop of over 26% from the 1931 rate. Australia, of course, honoured its external obligations in full. The conclusion at the bottom of page 10 reads:

"There is no doubt that Australia made a greater immediate saving, but in a space of four years Canada had accomplished an equivalent reduction, and since then it has made further savings and it would appear as if the future held a better prospect of reduced interest charges through the Canadian method."

THE CHAIRMAN: Mr. Leonard, that is a very important statement you have made there. You say that the saving which Canada has been enabled to affect on her obligations by refunding in the past five years, is more than equal to the savings which the Australian Federal Government made in its refunding scheme.

MR. LEONARD: As far as the rate of interest is concerned, the rate of interest on the debt, - the average rate paid on the debt.

COMMISSIONER ANGUS: Does that mean the rate on the whole debt?

MR. LEONARD: These figures are from the Canada Year



Book, 1937, and as far as I have checked the amount of interest with the amount of debt, it appears to be a calculation of the total interest paid, related to the total debt, and the same with respect to Australia. I asked Ottawa for the latest available figures down to the end of 1936, - I asked the Department of Finance to give me some figures to carry on to date, and those are the figures supplied to me by the Department of Finance.

THE CHAIRMAN: You argue that by the Dominion honoring its obligations in full it is called upon to pay less interest on its national debt over this period, than Australia had to pay.

MR. LEONARD: As far as the present average interest rate on the debt; that is the average interest paid on the debt, turned into a rate.

COMMISSIONER DAFOE: At this moment?

MR. LEONARD: At the present time. Well, I have not the Australian figures since June of 1936. As far as my arithmetic went in calculating how they arrived at a figure of 3.93 they took the interest that was charged related to the total amount of the debt, which was therefore not an average of rates, but I do not see how anybody could use that at all as being of any value whatsoever, because you might have small loans at small interest rates and large loans at high interest rates, and I presume it has been all weighed.

THE CHAIRMAN: Mr. Leonard, can you tell us how much they reduced the capital debt, their internal debt?

MR. LEONARD: They did not reduce the capital debt at all, Mr. Chief Justice. They made a  $22\frac{1}{3}\%$  reduction in the interest rate, on the internal debt, and they refunded their external obligations that either had call features or when they matured. The reduction on private debt was also on interest. There was some machinery set up some-





what similar to the Farmers Creditor Arrangements Act, where people could go and argue that a reduction should not be made or that a greater reduction should be made.

THE CHAIRMAN: I have not checked it up, Mr. Leonard, but I was under the impression that under the Australian plan,, as worked out, it applied to both public and private debts, and there was a cut of some kind in the debt. You say there was nothing but in interest?

MR. LEONARD: As far as my studies have gone there was no cut in principal whatsoever, except under some procedure similar to the Farmers Creditors Arrangement Act, where there was a tribunal to deal with bankruptcy.

Then at the top of page 11:

"This is said, not in criticism of the Australian plan, because the circumstances in the two countries were not comparable in many respects, but to indicate the great saving that can be accomplished, particularly in the long run, by the maintenance of credit.

Actually, while the principal of the debt has increased, the "burden" of the debt has decreased materially in the past five years."

The next paragraph sets out the accumulation of the deficits during the past seven years.

"It has been largely due to the second factor in credit, confidence in the willingness of the borrower to meet his promise to pay, that Dominion credit has been maintained. It would have taken but a whisper of bad faith to have impaired that confidence."

Then following on pages 11 and 12 there are examples of what the maintenance of Dominion credit has meant in Canada. It has enabled the Dominion to make expenditures for relief, direct expenditures amounting to \$273,000,000.



and that is exclusive of federal public works amounting to \$63,000.000. In addition to that, it has come to the assistance of the four Western Provinces by way of loans and guarantees to enable them to meet their own and municipal share of relief, and a year ago these loans amounted to \$127,000.000. This amount has been substantially increased in the last year and a half.

THE CHAIRMAN: That is, \$400,000.000 apart from expenditure on public works?

MR. LEONARD: On relief, yes, Mr. Chief Justice. Then of the above loans, the Dominion agreed to write off, in connection with the blanket adjustment plan in Manitoba and Saskatchewan, arranged in concert with municipalities and the provincial governments the amount of \$18,000,000. So that is in addition to the direct expenditures of the Dominion Government

"In addition to the above loans the Federal Government guaranteed the Treasury Bills of the Provinces of Manitoba and British Columbia for an aggregate amount of \$6,520,661 and guaranteed the assumption of the deposit liabilities of the Province of Manitoba Savings Office in the sum of \$12,442,400, which at March 31st, 1937, had been reduced to \$7,121,825.

It was also the credit of the Dominion that was put behind the operations of the Canadian Co-operative Wheat Producers Limited in order to finance its operations designed to assist in stabilizing the grain market during the years 1931-35.

Other instances could be given, but the foregoing illustrate sufficiently the value of strong federal financial credit in times of emergency. It should be noted that the Dominion was not able to



accomplish these results by virtue of its taxing powers alone; actually, notwithstanding the imposition of heavy federal taxes, it has had successively unbalanced budgets and it has been obliged to finance these deficits as well as its special and capital expenditures by borrowings aggregating since 1930 over \$900,000,000.

We can sum it up by saying that it has been the maintenance of Dominion credit that has carried us through the depression. Looking to the future, the federal taxing powers and responsibilities, as well as our national attitude toward financial obligations, must be based on the necessity of preserving Dominion Credit as the bulwark upon which we shall have to rely in times of national emergency."

COMMISSIONER ANGUS: Is it possible that the high value of new borrowings, some of them for very short terms, helps to bring down the average?

MR. LEONARD: Yes, Professor Angus, and of course, the extent to which there are call features. For example, last year \$236,000,000 maturing made quite a substantial difference. Strangely enough, Australia had a great deal of maturing and callable bonds during the same period.

COMMISSIONER ANGUS: I wonder if they borrowed as much?

MR. LEONARD: They had not borrowed as much, during that period, no. That is my general understanding of it, they have had considerable unbalanced budgets too.

Then Section E, Provincial Credit:

"Second only in importance to Dominion credit is the credit of our nine provinces, charged under our federal system with certain necessary responsibilities of government, and sovereign in





"their field of jurisdiction. All provincial governments have had difficulty in meeting the severity of the depression but in varying degrees. Deficits on current account have been the rule since 1929 with but few exceptions, and every province of Canada today has a much larger debt than in 1930.

Unemployment and agricultural relief have contributed largely to this increase in debt. The major portion of the expenditures for relief has been funded; in fact, some provinces have capitalized their entire expenditures.

The extent to which unemployment and agricultural relief has contributed to provincial financial difficulties has a very important bearing on the question of reallocation of taxing powers and responsibilities. If such relief on the scale of 1930 to 1937 is not a permanent factor in our public finance, then permanent changes in federal relationship should not be based on the record of the last seven years nor on the present situation in so far as it has been caused by that record.

If we view our Constitution in its strictest sense, relief to the poor and to the unemployed is primarily the responsibility of provincial and local governments. This constitutional responsibility is more evident when one looks at Australia and sees that the states and municipalities carried almost the entire cost of unemployment relief. No direct contribution towards the cost of unemployment relief was made by the Commonwealth Government; certain contributions were made by it to assist in unemployment relief works in 1930-1, amounting to £750,000, and special grants have been made to three states not directly



related to unemployment relief. On the other hand, the states imposed certain unemployment relief taxes and along with the local governments carried the chief burden of unemployment."

THE CHAIRMAN: Of course, the States in Australia are not restricted in taxing powers as our provinces are.

MR. LEONARD: They have full powers of direct taxation although I believe in actual practice there is not a great deal of difference between the taxes imposed by the States and by the Commonwealth, contrasted with Canada and the Provinces.

COMMISSIONER DAFOE: Are they not in receipt of larger subsidies from the federal authorities than is the case in Canada?

MR. LEONARD: Yes, the subsidies are much larger. They go back, of course, to the fact that the Commonwealth only started in 1901 and the Commonwealth took over the customs and naturally at that time they were very substantial, and the subsidies ever since 1901 have been on a very much larger scale than they have been in Canada.

"Turning to our Canadian situation, it is pertinent to raise the question as to what would have happened in the depth of the depression to even our strongest provinces had they been left to carry the responsibility of unemployment relief without Dominion assistance,

On the other hand, it is equally relevant to consider what would have been the effect on Dominion finances and credit if unemployment relief had been a national responsibility solely and our federal government had been obliged to carry the entire burden.

A third consideration of importance is that in



the carrying out of the method adopted in Canada of joint federal and provincial action, of nine provinces with the same constitutional responsibilities and taxing powers, four have had to receive loans from the Dominion to meet the whole or a portion of their own share of relief expenditures, and the other five have been able to finance themselves. Ontario has been able to balance its budget, including its share of relief - a result that the Dominion has not been able to accomplish.

In the result, it appears to us that in seeking to establish provincial credit throughout Canada on a strong basis for the future, there are three main divisions to the problem.

The first is the remedying of the present difficulties of certain of the provinces as a result of the extraordinary conditions of the past eight years; the second is the provision for the future method of dealing with the factor that has been the chief cause of provincial troubles, namely, unemployment and agricultural relief, and the third is the matter of any further changes in revenues or responsibilities after the first two aspects have been considered."

Section F. deals with the inter-relationship of provincial and Dominion credit. Commencing at the second paragraph;

"How important is it to the other provinces and to the Dominion as a whole that further provincial defaults should be avoided?

There are reasons indicating that it is a matter of extreme importance to the whole of Canada.





"In the first place there is the effect on the credit of Canada and of other provinces. It is true that Alberta's default has had but little apparent effect, when one considers that the Dominion and some of the provinces have been able to finance readily in spite of that default. It does not follow, however, that if two other provinces defaulted, the credit of the rest of the country would be unscathed.

There is some evidence now of impaired confidence. The last Dominion of Canada conversion loan floated in London towards the end of 1937 evoked this comment from the Financial News:"  
Then follows a quotation, the last part of which reads:

'Nevertheless, the present situation in the provinces and municipalities would tend to reflect upon the credit of the government if there were any likelihood of its continuance.'

It does not matter whether one agrees with the Financial News or not, the fact that the Financial News is expressing such an opinion indicates how the credit of the rest of Canada can be affected by happenings in one part." And the next paragraph deals with that. The following paragraph:

"British and foreign investors hold \$1,690,000, 000 of Dominion, provincial and municipal bonds, and they in particular are likely to be concerned about this divided sovereignty in taxation if it contributes to major defaults. It would be reasonable to expect that their reaction would be unfavourable to Canadian securities as a whole.

From the stand point of ourselves as Canadians there are motives of national pride, of national



responsibility, and of national unity, that impels us to make our system of government sound and strong, to strengthen the weak links, and to help those parts that need assistance.

The policy of Dominion assistance to save a province from default has been accepted in the past. The present federal government and its immediate predecessor have done so, and the reports of the Bank of Canada last spring recommended temporary aid for Manitoba and Saskatchewan pending the report of your Commission.

In the light of these reasons and precedents, it is our submission that if a province is facing default, the Dominion is justified in coming to its assistance, providing a sound method of doing so can be found."

Section G. deals with particular provincial credit situations.

"The particular difficulties that now exist in provincial finance are those of Manitoba, Saskatchewan and Alberta.

The three prairie provinces have a basic similarity in economy in that they are primarily dependent upon agriculture and especially upon grain-growing. Furthermore, they rely upon export markets for the major portion of their production. On that account the world-wide depression fell with peculiar severity upon these three provinces.

Low prices for agricultural products in general and an exceptionally drastic decline in grain prices were coupled with heavy losses in volume of production caused mainly by drought and rust.

The effect of the depression has varied in different parts, and undoubtedly the most severe shock was in



"the drought area, comprising a small portion of Manitoba, a somewhat larger part of Alberta, and so large a portion of Saskatchewan as to constitute a national calamity.

We cannot deal with this subject without making the comment that in our contacts with the people in the drought area we have been greatly impressed by the fortitude and courage with which they have persevered during this unprecedented period of adversity. Their distress has been recognized by Canadians generally and by the federal government as a national matter, and the rehabilitation of the drought area is being undertaken by a comprehensive plan extending over a period of years.

It was, of course, inevitable that these conditions would strain provincial finances.

The Commission is gathering information that will disclose the extent of this strain, and without the information that can only be obtained from a detailed investigation we can only refer to certain aspects of the financial position of the provinces that are relevant to our general conclusions."

Dealing first with Manitoba we note the total debt is \$128,153,638, and only two provinces in Canada have a lower per capita debt. Then follows a comparison with the State debts in Australia on the per capita basis.

"Of its debt, (Manitoba's debt) some \$40,000,000 is represented by active revenue-producing assets, including the publicly owned telephone systems and power commissions which in other provinces would be privately owned and which should be excluded in considering how far





the debt is a burden upon the taxpayer. Of the balance of \$78,000,000, about \$19,000,000 is owing to the Dominion Government for relief loans and \$59,000,000 is owing to the public.

A very important fact is that only 30% of the bonded debt, exclusive of Treasury Bills and Exchequer Bonds, of Manitoba is in the form of obligations payable in Canada only. An issue amounting to \$8,156,694 is payable in London only, and the rest of the bonds are two-way or three-way bonds as between London, New York and Canada. In other words, there is a decidedly international aspect to the bonded indebtedness of Manitoba, and the fact that approximately 70% of its bonds have provisions for external payment has a very important bearing from a credit standpoint. Undoubtedly a large portion of Manitoba's bonds are held by investors in United States and England and default would have severe reactions in those countries."

The figures of the Canadian Life Insurance Companies for the year ending December 31st, 1936, showed that they held \$7,062,846 of Manitoba's bonds, or less than 6% of the total debt. The United States Life Insurance Companies, 4.4%, in so far as we can get that information from the report of the Dominion Superintendent of Insurance.

"We have no information as to other holdings, but no doubt a very substantial amount of the bonds will be held by the sinking funds of municipalities in Manitoba. In addition, there will be holdings by organizations such as workmen's compensation boards, pension funds, benefit societies, and religious and charitable foundations. Such internal ownership has an important bearing in consider-



"ing respective advantages and disadvantages to Manitoba in paying its obligations in accordance with its contracts, or of altering them. An apparent saving in interest results in an additional expense or burden in another direction.

The interest payable by Manitoba on its funded debt in the fiscal year ending April 30th, 1937, was \$5,693,063. Of that amount the government received back in interest from the telephone systems and other self-supporting enterprises and on its school lands fund \$2,152.123. This left interest of \$3,441,000 to be paid out of taxation and other revenues such as the Dominion subsidy, liquor profits, etc.

This net annual interest charge of \$3,441,000 is \$4.84 per capita.

The relative burden of such an annual charge depends upon the productive income of the people. It was the drastic decline in that income which made the burden of the debt difficult during the past few years; but Manitoba has come through that period without defaulting and without any permanent impairment of credit if a normal period of productivity ensues. Its 1937 record shows the great recuperative ability of Manitoba, and this has been reflected in the provincial finances. For the current year ending April 30th, 1938, it is expected that Manitoba will have a surplus of \$611,000 (exclusive of unemployment relief which the Dominion is providing by way of a loan) without taking into consideration the special subsidy of the Dominion Government of \$750,000.

Even if we conclude that Manitoba's debt is within the ability of the province to carry, there



"are other important factors in the financial position of the province and its people to be considered. The objective to be sought is not merely the payment of its present debt, but the maximum development of its material resources and the increased prosperity of its people. To attain that objective will require the maintenance of the credit of the province.

In its brief the government of Manitoba suggested an alteration in the terms of its present obligations so that bondholders would receive a reduced interest rate on a refunding of non-callable bonds. The suggestion is predicated upon certain assistance from the Dominion government and upon the assent of the bondholders.

Apart from any other considerations, we believe that the practical difficulties in endeavouring to obtain the assent of holders scattered all over the world would result in an element of compulsion in any attempt to carry out such a plan.

If the province's credit is impaired, then the present saving of interest would be penny wise and pound foolish. Future higher interest charges and loss in the productive capacity of the people would far outweigh the apparent gain.

It is our submission that the proper course to be pursued is rather one directed towards placing and maintaining the credit of Manitoba on the strongest possible basis."

THE CHAIRMAN: Do you discuss later, Mr. Leonard, how that should be done?

MR. LEONARD: Yes, the suggestion is included in the brief. The next paragraph refers to the effect of the depression upon Saskatchewan. Then in the middle of the





paragraph:

"Coming on top of the previous seven years, the calamity was of such great magnitude that it has been recognized as of national importance calling for national assistance. The municipal and provincial governments have endeavoured to cope with this catastrophe, but even assuming a strong financial position at the beginning of the depression it is probable that they could not have carried on without assistance. In 1928 the total expenditure of Saskatchewan on current and capital account was under seventeen million dollars, whereas the relief requirements of the province during the last seven years have averaged over that amount.

Saskatchewan entered the depression in a relatively good credit position. Its net debt was not large in relationship to its resources and record of production, and in fact the capital side of its financial statement was probably the best of any province in Canada. In the last seven years it has had to borrow from the Dominion Government for the province's share of relief expenditures over three times what the net debt of the province was in 1929.

In the result, Saskatchewan's problem has been caused by factors which have been beyond the power of the people of that province, its government, or its debenture holders, to cope with, and if those factors are to continue it will still be beyond their powers.

The problem is one of endeavouring to chart the future and determining how far the next few years will reverse the record of the past eight years. Saskatchewan has had amazing productivity in the



past. For a period from 1916 to 1928 we estimate that the average annual income of its citizens was above the average for Canada. If Saskatchewan's climate is cyclical, and the next period were in any way like the record from 1916 to 1928 rather than from 1929 to 1937, there would be a tremendous difference in the financial situation of the province and its people. No one can predict what will happen, but we do submit to this Commission that the opinion of those best qualified is that the drought will break and that the productivity of Saskatchewan will come back. Our own experience endorses that view and we desire to go on record as believing in the future of Saskatchewan as a great wealth-producing part of this Dominion. We recognize that mistakes have been made in the past in settlements on farms where the soil was too light for grain-producing in a semi-arid climate, and that even the heavier lands will be subject to recurring periods of non-productivity through drought. Nevertheless, given proper administration of its natural resources and its fluctuating economy, we have confidence in the future of Saskatchewan and we believe that it will again produce as it has in the past."

The next paragraph deals with the Prairie Farm Rehabilitation plan. Then the second paragraph:

"These facts have an important bearing upon the credit position of Saskatchewan. If its present debt problem had now to be dealt with solely as a matter between creditor and debtor and the ordinary principles applied that govern adjustments between an honest debtor and a reasonable



"creditor, there is no doubt that the Province cannot pay at this time in accordance with its contracts; but such relief as might be accomplished by default or an alteration of terms would not begin to meet the necessities of Saskatchewan's situation. Furthermore, as the Bank of Canada report states, "In no other section will credit be so necessary in the future, and in no other section is it now so important to maintain confidence in the good faith of borrowers."

It seems to us that Dominion assistance will still be required until such time as the return of good crops and the rehabilitation of the drought area have repaired the ravages of the last seven years. We shall deal later with the form that such assistance might take in relation to Saskatchewan's debt.

#### ALBERTA

We understand that the Commission has on file the Walker-Elliott report on Alberta's financial position in 1936, and we refer to the conclusion reached by it that the province could meet its debt charges. The Bank of Canada report in 1937 points out the arbitrary reduction of its bond interest by Alberta was not necessary to meet the total current and capital expenditures of the province during the fiscal year 1936-7.

Had Alberta not repudiated its obligations, and instead followed the example of Saskatchewan and Manitoba and accepted loans for relief and grants to balance its budget, it would have been able to pay its interest obligations without any heavier taxation on its people than it has imposed.





"wealth and income of its people will require future credit.

An analysis of the provincial bonded indebtedness of Alberta shows that the province's position from the standpoint of the relation of the debt to the income or wealth of its people is not as difficult as that of Saskatchewan, and but little worse, if at all, than Manitoba. It is better than that of some provinces of Canada that have not considered defaulting on their bonds and in fact have maintained a high credit position.

Any solution that would be applicable to the problems of Manitoba and Saskatchewan should therefore be able to take care of Alberta also. It is an essential, of course, that there be a willingness upon the part of any provincial government to do its part if credit is to be maintained or restored. In the case of Alberta, this would require a change from the present attitude.

In considering the provincial finances of Manitoba, Saskatchewan and Alberta, a situation exists with respect to private credit which has a bearing on the restoration of their provincial credit.

To accomplish any permanent rehabilitation of government finance in those provinces so that the productive capacity of the people will be able to carry not only the present requirements of government but also the normal expansion of a progressive people, credit will be required for individuals. As citizens are able to increase their own material wealth through the wise use of credit to develop farming, to buy equipment, to build houses and factories, their tax-paying ability increases. Con-



"versely, static or deteriorating conditions will increase the present difficulties of provincial finances.

We have pointed out the importance of credit from a government standpoint, but it is of even greater value in its individual aspect. No country can nowadays be progressive unless it is expanding its capital assets through the sound use of credit."

The paragraph at the bottom of page 27 and the top of page 28 shows that mortgages represent in the case of one citizen, the average contribution of fifty other citizens.

"Sometimes debtor and creditor relationships are beclouded in an atmosphere that suggests that debtors are poor and creditors are rich, and popular sentiment is appealed to on that basis, and this misconception has been a partial cause of the cessation of lending in parts of Canada.

If we are to have a sound system of long-term private loans, it must be based on the protection, not of borrowers nor of lenders, but what has been termed the 'institution of lending,' which is just as valuable to borrowers as it is to lenders, and is an indispensable factor in any modern economy."

The next paragraph is to the same effect. Then the paragraph at the bottom of the page:

"The development of Western Canada from 1900 to 1914 was extraordinarily rapid. Manitoba more than doubled its population; Saskatchewan and Alberta increased sixfold. With the expansion of population there was a great demand for capital to erect houses, farm buildings, and to buy equipment.



"The country was new, the risk uncertain, costs were high, and these factors in a pioneer country meant that to attract credit from outside sources higher interest rates would have to be paid. Even at these higher rates the demand for credit exceeded the supply, because the productivity of the soil was rewarding settlers with a return on their investment that greatly exceeded the cost of their borrowed capital and enabled them to pay the interest and make substantial profits. It was estimated that in 1914 the mortgage loans of loan, trust and life insurance companies in the three prairie provinces were about \$275,000,000, and practically all that amount had been advanced during the period since 1900. But during the period 1901 to 1911 the population had increased by over 900,000, or over 215%, the annual production from manufacturing and farming had jumped from \$52,724,622 to \$302,063,206, and the value of the farm property had increased from \$158,000,000 to \$1,417,000,000. In other words, the mortgage debt increase was not great in proportion to the increase in population, wealth and productivity and no difficulties were being experienced generally in meeting principal and interest payments."

—

—

—

—

—

—

—





"Following the outbreak of war in 1914, there was a lessening of the demand for new credit, partly because of war-time uncertainty and checked immigration, and partly because of phenomenal financial returns to farmers. The ordinary result of this situation would have been to reduce rates of interest had not other circumstances also changed.

Government borrowings to finance war expenditures, both at home and overseas, diverted surplus funds out of the mortgage field into government bonds and increased interest rates generally on all securities. In addition, in connection with mortgage investments in the prairie provinces, restrictive legislation commenced during the war period. The Seed Grain and Relief Act of the Dominion Government, in 1915, passed at the request of provincial governments, placed prior liens on all Saskatchewan and Alberta farm lands receiving advances, and notwithstanding excellent crops and high prices, little effort was made to repay or to collect these advances. Moratoria directed against mortgages and the virtual cancellation of the personal covenant in Alberta in 1916 had an injurious effect on credit.

Notwithstanding representations then and subsequently made to the governments of these three provinces that legislation which made it more difficult or less safe to lend on mortgage would decrease the supply of money and mean continued high interest rates, the trend of such legislation has continued almost uninterruptedly since the War. We have set out in Appendix "A" to this brief a list of Acts now in force in the three provinces



which create prior liens and also some examples of debt adjustment legislation. As a result of the prior liens, it has been true for some years that there is no such thing as a first mortgage on farm lands in the prairie provinces."

The prior liens are set out in the appendix.

THE CHAIRMAN: That is the appendix 2, is it?

MR.LEONARD: That is the appendix 2, part 2 of the brief.

THE CHAIRMAN: Yes.

MR.LEONARD: We listed all references to taxes including those which are ordinary in other provinces as well as those which are extraordinary in the West because they vary, and there is a fairly complete summary of the prior liens and taxes and some references to the debt adjustment legislation in those three provinces. They make quite a formidable list, Mr.Chairman.

THE CHAIRMAN: Yes, they do.

MR.LEONARD: Going on, on page 30:

"While exact figures are not available, our records show that the first mortgage investments of the life insurance, loan and trust companies in these three provinces are approximately the same amount as in 1922. This is more striking when one realizes that in the same period their mortgages in the other provinces of Canada have increased more than two and a half times. In 1921 these companies had more loans in Western Canada than in the eastern provinces, and since that time, although the total investments of these companies in mortgages in Canada increased by over \$280,000,000, practically all that increase went to other parts of Canada.



A factor contributing in great measure to this retarding of credit has been the legislation to which we have referred. It is impossible to estimate how far this in turn may have slowed up production, but it is certain that until the trend is reversed the lack of credit will be a serious handicap to the people. As a matter of self-interest, it should be recognized that the way to develop their resources to the full is to remove the restrictions that now prevent credit, and in place of them to encourage the proper use of capital, and by reducing the loss and expense factors and increasing the supply of money, interest rates will be on a lower and sounder basis.

The depression since 1929 has, of course, fallen very severely on the three prairie provinces, and under the best of circumstances some remedial measures would doubtless have been required to help ease the shock of falling income in relation to fixed charges. The exceptional and emergency conditions of the last few years should not be allowed to obscure our vision as to what is the course of wisdom in the long run. The last seven years have left us with some debt problems, but they are not of such magnitude that they cannot be satisfactorily cleared up in a proper way without destroying future credit."

Then follows a reference to the plan the Association companies have pursued of individual adjustment except in the case of blanket write-offs by arrangement with the provincial and Dominion government.

The second paragraph from the bottom, we start to deal with the interest rates in Western Canada:





"Because the matter of interest rates in Western Canada has been widely discussed and a wrong impression may have been created, we should like to give the facts within our knowledge and point the way towards improved credit and lower interest rates.

Dealing in the first place with the variation in interest rates between first mortgages in Western Canada and those in the older-established provinces, we have taken the experience of one company whose scope of operations is wide enough to make it fairly representative of trends in mortgage interest rates in Eastern and Western Canada. In the Minutes of Proceedings and Evidence of the Select Standing Committee on Banking and Commerce in 1933, on page 78 is set out a table of the experience of this company.

An analysis of this table shows that during the period of fifteen years from 1917 to 1931, inclusive, the spread between the interest rates on new loans in Ontario and those in Manitoba ranged from .07% lower in Manitoba to .71% higher, and that the average rate in Manitoba over the whole period was forty-one one-hundredths of one per cent. higher than in Ontario. Similarly, the average rate in Saskatchewan was eighty-four one-hundredths of one per cent., and in Alberta it was eighty-nine one-hundredths of one per cent. For the three provinces the variation over Ontario was seventy-two one-hundredths of one per cent."

Those interest rates are weighted, that is the actual amount of the debt is taken into consideration to make it a true figure.

THE CHAIRMAN: What was said to us out in the West, Mr. Leonard, as you know, was that generally speaking



the mortgage loans in the east were, we will say 6% , and they ran 8, 9 and 10% in the West.

MR.LEONARD: This is an endeavor to meet that. At least it is an answer to that statement that these are the actual experiences of one company which in some respects might show a smaller variation, in other respects a larger variation, but it is impossible to get a composite picture. This is as true a picture, I think, as could be obtained, because it was a company that was lending in both places, it had a sufficient volume of business to make its figures fairly representative, and is, I think, a true picture of the situation. I have carried the table, that was given in Ottawa of '33 down to date and it is available to the Commission if it so desires. We only took the period to '31 because loaning ceased in the West as far as this company, and generally, about '31, '32.

COMMISSIONER MacKAY: These figures apply only to first mortgages?

MR.LEONARD: Yes, Dr.MacKay.

COMMISSIONER MacKAY: You have no figures applying to other forms of contract, second mortgages?

MR.LEONARD: No, we are not engaged in the second mortgage business in any respect and speaking from my own knowledge I do not think there has been any real second mortgage business in Western Canada. It is generally represented by second mortgage back on purchase price, on agreement for sale.

The second paragraph from the bottom on page 32 deals, then, with the cost factors and shows that the excess annual cost in the case of this company on branch expenses only over Ontario was .53%.

"That is to say, it has cost \$5.30 more each year to handle \$1000 of mortgage investments in



the West than in Ontario. Deducting this increased cost from the excess interest rates for the three prairie provinces, the result is that there was a margin of nineteen one-hundredths of one per cent.

In other words, on every thousand dollars loaned in Western Canada there was one dollar and ninety cents received in interest each year more than in Ontario, and if the losses were no greater than in Ontario, this amount would have represented the additional profit over lending in Ontario.

In fact the losses actually realized and absorbed during this period from 1919 to 1931 in the three prairie provinces considerably exceeded that margin, without in any way considering the subsequent much heavier losses and voluntary adjustments made since 1931.

These figures show why a spread has existed on interest rates and why, notwithstanding that spread, institutions have preferred to invest in other parts of Canada. It would have been greatly to their benefit if they had been able to lend in Western Canada at the same rate as in Ontario with the same cost of doing business and loss factors as in the latter province.

We have dealt so far with the spread in interest rates as between Ontario and the West, and we propose now to consider the broader question of the total cost and the loss or profit factors in the business of mortgage lending with particular relation to Western Canada. We are prompted to do this by the statement in the





brief of the Saskatchewan Government at page 329 to the following effect:

"Interest rates in loan contracts have been high, although it cannot be denied that the borrower has agreed to pay these rates. Nevertheless, it would probably be fair to say that in the case of an eight per cent. interest rate at least half of the rate charged must have been for the creation of a reserve as a protection against the risk that was taken. This is a consideration that will no doubt influence creditors in the direction of making reasonable compromises."

The suggestion inherent in this statement is that the business of lending money in the prairie provinces on the security of first mortgages has been an exceptionally profitable one that should have permitted huge reserves to be established by those engaged in it, and that, notwithstanding adjustments already made and the reduction of claims by many millions of dollars, these reserves ought to make it possible to make further readjustments on the most generous basis without doing serious harm to the lenders or impairing the sources from which future borrowings must come. Such a suggestion shows a lack of understanding of the conditions under which the business of mortgage lending has in fact been carried on and of the cost items that must be taken into consideration in determining what surplus of profit is available to meet exceptional or extraordinary losses.

In considering the operation of the law of supply and demand as governing mortgage interest rates, it



is important to note that there are various and sometimes numerous sources of supply for mortgage investments. The field is not confined to organized business, as in banking and some industrial activities. Private investors, directly or through lawyers or brokers, compete with institutions and they in turn compete with each other. In the constitution of this Association it is expressly provided that there is no binding of its members on matters affecting their business, and in point of fact there has never been and is not now any agreement among them as to rates of interest. Mortgage interest rates are entirely governed by the law of supply and demand with private investors, companies, and sometimes governments competing for the most desirable investments and seeking to minimize costs and avoid losses.

From the standpoint of those who are in the business of mortgage lending, there are three factors that must be met before any profit can be made, and if, over a period, an interest return sufficient to cover these factors cannot be obtained, then the business is being conducted at a loss and those engaged in it must either withdraw or face the inevitable consequences. These factors are the cost to the lender of obtaining money, operating expenses and provision for losses.

We have already pointed out that the loans made by lending institutions represent the accumulation of small sums contributed by a number of individual investors. Obviously, in obtaining these sums such institutions must compete with other forms of investment available to the public, notably the bonds offered in small denominations by the Dominion



of Canada and other public bodies. This situation is obscured to some extent by the fact that some of the institutions receive the public's money on life insurance and other contracts that have special cost features of their own, and the clearest illustration is that of a loan company obtaining money through issuing debentures. The rate of interest such a company will have to pay to obtain money is determined by the current rate obtainable on Dominion of Canada long term bonds, and over a period it will have to offer to the investor a rate of return in excess of the rate obtainable on such bonds. Basically the same considerations will govern all others competing for the public's money, whether loan companies, trust companies or life insurance companies."

Then, reference is made to a table showing the yield during this period of 1919 to 1931 on Dominion of Canada bonds, a yield of 5.14% and a reference is made to the rate of interest on the debentures of a Canadian loan company which is set out in Appendix (B) and is 5.27%.

"The average rate obtained by this company during the period on mortgage loans in Manitoba was 7.53%.

During this period the average margin of gross profit in obtaining money from the public by issuing debentures and relending the proceeds on the security of first mortgages in Manitoba was, therefore, 2.26%. This is the margin that was available to meet the other two cost factors referred to, namely, the operating expenses and losses.

In attempting to obtain figures of operating expenses and loss experience for the same period,





namely, 1919 to 1937, we have once more selected the same company as being fairly representative of the general average. So far as costs of operation are concerned, it is believed that those of this company would compare favourably with others either from the point of view of economy and efficiency or by correlation to the volume of loans outstanding. With respect to loss experience, some companies would, of course, show a more favourable record and others one less favorable, depending upon individual skill in the selection of loans and the imponderable element of chance. To obtain any statistical statement of the costs and losses of all the companies and to attempt to compute a hypothetical average experience would be a formidable task and the figures so obtained would, in our opinion, be less useful than those showing the actual experience of a particular company.

This company informs us that during the period the annual cost of operating its mortgage lending business in Western Canada, before making provision for losses, was approximately 1.50% of the average principal amount of mortgage loans outstanding."

When I use the word "approximately" it would be either 1.49, 1.50 or 1.51. It is within that slight radius, depending on taking some figures out.

"This percentage may be compared with the evidence given in 1926 by officials of the leading loan and trust companies before the Standing Committee on Banking and Commerce of the Senate of Canada. At that time one company stated that the cost of management at Eastern branches was .56% and the cost of management at Western branches was 1.56% without any allowance for losses. Another company



stated that its cost of management in Ontario was 1.49%, and for the three prairie provinces 1.92%, and that the cost of management on farm mortgages in the three prairie provinces would be over 2%. These figures were borne out by an examination at that time of the Government Blue Books, which showed in the case of companies with a Dominion register an average cost of 1.70%, and in the case of companies with an Ontario register an average cost of 1.78%. This percentage of 1.50% means an annual cost of \$15,000 per \$1,000,000 of mortgage business and it might be noted that taxes are an appreciable item in these costs and that the salaries and travelling expenses of inspectors alone form about 20% of the costs in Western Canada, whereas they are a negligible item in Ontario. It is believed, therefore, that an average annual cost of 1.50%, related as it is to a substantial volume of mortgage business, represents for this company an achievement in economy of operation that was substantially better than average.

Deducting this annual percentage from the previous percentage showing a gross profit of 2.26%, we have an annual percentage of .76% available to provide for losses. The period selected, namely, 1919 to 1931, was on the whole a very favourable one, and if the figures were extended to cover the period since 1931 the ratio of losses would be substantially higher. Nevertheless, even during this period losses actually absorbed amounted to .47% per annum of the total amount of mortgage investments in Manitoba and for the three prairie provinces taken as a whole, .44% per annum of the average total



amount of mortgages outstanding in these three provinces.

Deducting the lesser of these two percentages from the percentage of .76% previously determined, we find a margin of profit of .32% per annum as the sum which this company would have available to create a reserve to meet the extraordinary losses of recent years. It is scarcely necessary to draw attention to the difference between this percentage and the estimated amount of 4% per annum referred to in the extract quoted from the Brief of the Saskatchewan Government. The true figures show quite clearly that even during this period the margin of gross profit has been quite inadequate to cover costs of operation on any basis, however economical, and to leave a margin sufficient to meet the losses that have in fact been suffered as the result of the succession of poor crops and low prices encountered since 1931.

The plain fact is that since the War the business of lending money on mortgage security in the prairie provinces has not been a profitable one. It may be objected that before the war the business of lending was profitable, and therefore that was the period during which reserves should have been accumulated. To go back twenty-five years is, of course, wisdom after the event with a vengeance, but nevertheless it is submitted that, if it were possible to make one, any analysis of costs and profits during that period would show that from such profits alone no reserve could have been accumulated sufficient to take care of the losses already sustained by mortgagees during the acute depression in Western Canada that has lasted from 1931





to the present time. The suggestion made in the brief submitted by the Edmonton Chamber of Commerce that the losses sustained by mortgage lenders could have been so slight as to have justified lower rates of interest had there been 'greater care in checking the purpose of borrowing and the capacity to pay interest and principal as due,' is in our submission also a most erroneous assumption.

No one will deny that individual mistakes have been made, but there has been the greatest degree of selectivity used in loaning in Western Canada since the war. To revert back to the statement made earlier in this brief, the volume of institutional mortgages in Western Canada has been comparatively stationary since 1919, while in the rest of Canada it has increased by over \$280,000,000. In fact, what happened was that companies, while having ample funds for investment, were adding but slightly, if at all, to their western investments, and in doing so were exercising the greatest degree of care in selecting from the considerable volume of business being offered. The factors that they could not control or foresee were the legislative interferences with the legal position of their security plus the combination of poor crops and low prices.

Taking the whole period from the beginning of the century to the present time, the prairie provinces have unquestionably been an asset of tremendous value to Canada as a whole, and in the earnings derived from that asset the people of Canada as a whole have shared in varying degrees according to their ability and opportunity. It is, however, a complete mistake to imagine that, viewed as a



whole, the share of those individuals and institutions whose business was to lend on mortgages has been impressive or disproportionate. On the contrary, they have been forced by circumstances and by legislation to stand a substantial part of the losses of recent years without having been able to obtain compensating profits when times were good. The loans of the mortgagees made possible the physical equipment of the West, and its consequent development with profit to all; but because mortgage loans were made on a long term basis, the mortgage lenders find themselves still heavily involved at a time when others whose business was on a cash or short term basis have made their profits and withdrawn them for profitable investment elsewhere. To ask, therefore, that mortgage lenders as a class should be singled out as suitable recipients for further burdens is, in our submission, quite unfair and lacking in an appreciation of either the facts of the past or the probable needs of the future.

Investors must have good memories or they soon cease to have anything to invest. The rate of return on any particular type of investment must, in the long run, depend upon an equilibrium between the supply of available funds and the demand for them. Taking these two elements together, it becomes clear that if the development of Western Canada is to go forward and require increasing quantities of capital for long term investment, the rate of interest at which such capital can be obtained from private sources will inescapably depend in part upon the experience of investors during this adverse period. It is vital, therefore, from the point of view of



those who are both present and prospective borrowers, that the next period of active development should open with a past record as good as it can reasonably be made to appear. Otherwise, capital will not be forthcoming in the future from individual lenders except at rates so high as to stifle development and there will be a consequent pressure on governments to supply that capital. It seems reasonable to expect that for some time the West will continue to look elsewhere for the capital necessary for its development. That capital, if it is to come at all, must come from either private or public sources. It will come from private sources only to the extent that future possibilities of profitable investment can be foreseen in the light of past experience."

Then we deal with the adjustments that we have made. We have put into effect a six per cent rate of interest on existing farm mortgages throughout Manitoba as of January 1st, 1937. In addition the members of this Association have reduced the amount of the debt and the total of such voluntary write-offs during the period from January 1st, 1936, to October 1st, 1937, was \$3,138,191.88 for Manitoba alone. This does not include any reductions under the Farmers' Creditors Arrangement Act.

"These reductions in the interest rate and the amount of debt add considerably to the loss record on Manitoba farm mortgages and do not give much encouragement to the prospects of future credit. Nevertheless, the situation as to present farm debts is not insurmountable if the records of our companies are a criterion, and if we assume, as we think we are entitled to do, that the years from 1930





to 1936 were abnormally low and that we shall have more normal prices and conditions ahead of us. Notwithstanding the extraordinary depression which naturally resulted in an increase in arrears of interest, the position of the average farm mortgage account in Manitoba is shown by taking the average of some 6500 accounts."

That is the accounts of our member companies.

"The average mortgage represents an original advance of \$3355 on 296 acres of improved land at an interest rate of 7.62%."

That interest rate is taken from the experience of the individual company in the absence of general figures.

"As at December 31st, 1937, the total amount of principal, interest, charges such as taxes and insurance, on these accounts averaged \$3424 with the interest rate at 6%. Accordingly the actual increase in debt over the amount originally contracted to be paid is---

That is a mistake, that should be \$69 instead of \$64.

"On the other hand, the annual interest now payable is \$205.44 as against \$255.65 due under the original contract. In other words, while there has been an increase of debt as an inevitable result of the unprecedented depression, yet the reduction in the interest rate has effected a reduction in the net annual carrying charge and the actual burden of debt is now very definitely less than that originally contracted. In fact, it is now the same as if the original principal had been reduced to \$2620 at the contract rate. The average value of the farm at present sale price estimated at \$18



per acre would be \$5,328, leaving an equity over and above the mortgage of \$1,909."

Then follows similar figures for Saskatchewan: An increase of \$393. over the original debt, but the annual interest now payable is \$179.88 as against \$208.03.

"Southern Saskatchewan has suffered more than any other part of Canada and it was to meet the extraordinary effects of years of drought that the voluntary adjustment plan was arranged in 1936 by cooperation between the Dominion government, the Saskatchewan government, and this Association. Although the basis of individual adjustments in accordance with the merits of each case is the proper method, the general condition in the drought area was such that a blanket plan was adopted. The write-off made by the members of this Association as part of this plan has amounted to \$18,600,000.

There is sound ground for believing that while Southern Saskatchewan may be subject to periodic droughts, it will also have its cycles of great productivity. The moisture conditions of the current spring seem to mark the end of the drought cycle, and, with sufficient rainfall, Southern Saskatchewan is the greatest wheat producing area in the world. There are remedial measures to be adopted as a result of the experience since 1929, and we recognize that it will be necessary in individual cases to make further adjustments of debts. The situation is one that we think can be met by the continued application of cooperation between farmers, creditors and governments."

Then follows a study of a block of \$3,000,000 of mortgages in the heart of the drought area of Southern



Saskatchewan showing a payment record of principal and interest of 9.343% for the period from 1922 to 1937. The payment record for the period from 1922 to 1930 was 15.1% and on the basis of 6% interest rate, if we had a similar experience during the next nine years such an annual payment would extinguish the debt in nine years.

There is a reference to the form of agreement that has been drawn up in connection with the Saskatchewan plan.

THE CHAIRMAN: Just a moment, on this plan as previously stated, "Therefore this analysis gives an accurate mortgage payment record and history of real estate acquired over a period of sixteen years in what is the low precipitation area of the province of Saskatchewan, including the years of record deficiency in rainfall". "Starting in 1922, there were 1815 mortgage accounts in the block, and the record of these mortgages was followed through to 1937; loans made subsequent to January 1st, 1922, were not included." What was the result of that picture?

MR. LEONARD: The next paragraph: "The mean average of annual collections related as a percentage of the debt owing for the whole sixteen year period was 9.343%."

THE CHAIRMAN: Yes. That was for both principal and interest.

MR. LEONARD: That was collections, yes.

"The average for the period from 1922 to 1930 was 15.1%". Actually during the good times the full amount that could have been collected was not collected because there was no pressure. Any collection over the amount due was due to the man desiring to pay, rather than the man being asked to pay.





At the bottom of page 42 reference is made to the form of agreement that has been used in connection with the Saskatchewan plan involving a crop share payment basis, and on a crop share payment basis during good times the payments would be much heavier.

The middle of page 43, the third paragraph --

THE CHAIRMAN: But if there was no crop of course there would be no payment whatever?

MR.LEONARD: That is what happened in Saskatchewan last year, for example, in those agreements. There was no crop, but there was no default.

THE CHAIRMAN: The interest however, continues to run?

MR.LEONARD: The interest rides to the next year, subject to being extended. I think the whole agreement is extended one year to the end.

"Prior to 1936 Alberta mortgage accounts in general were in better standing than those in Saskatchewan and Manitoba. In the last two years this situation has changed, due partly to the passing of legislation such as the Reduction and Settlement of Debts Act (which was held to be invalid) and the moratorium, and partly to the fact that a plan of debt adjustment similar to the one adopted in Saskatchewan and Manitoba, although offered in Alberta, has not been accepted."

The figures for Alberta are \$3047 now owing as against an original debt of \$2,730. Assuming a similar plan had been put into effect there is a description of the plan, turning over to page 44, a reduction of interest rates to 6%, the second paragraph:

"Taking the position of an average mortgage left under such a plan after assuming a reduction compar-



able to that affected in Manitoba and Saskatchewan, the result would be that the debt would stand at approximately \$2700 or probably less. The annual charge for interest on \$2700 would be \$162.00 as compared with a figure of \$218.40 representing the annual interest contracted to be paid on the original principal advanced, a reduction of over 25% in the annual carrying charge of the debt."

( Page 6896 follows )



The plan proposed by the Association was not accepted by the Alberta government.

In view of this refusal it has not been possible to put Alberta mortgage accounts on any basis satisfactory to either the debtor or the creditor. Some progress has been made in individual accounts where mortgagors have indicated that they wish to pay their debts to the extent of their ability, irrespective of legislation. The members of this Association recognize that some plan of adjustment of present farm mortgage debts is desirable and are prepared to assist in bringing it about."

THE CHAIRMAN: Just a moment, before you pass from that point. Have you any figures which would indicate how far the mortgagors of the province of Alberta, last year, paid interest on their mortgage debts, notwithstanding the moratorium, Mr. Leonard?

MR. LEONARD: I think there would be no difficulty in securing those figures. I understand, however, we have not them divided between interest and principal.

THE CHAIRMAN: Did the companies find that as a rule the mortgagors paid notwithstanding the legislation?

MR. LEONARD: There was quite a diversity of experience in this connection. It was surprising the extent to which the borrowers paid, irrespective of the legislation. As a rule, where they paid there was some request for concessions, and the extent to which the mortgagor paid depended upon, to a large extent, the concessions which were made. In some cases, in fact, in all cases, the percentage of those who took deliberate advantage of the moratorium without making any arrangement whatsoever and who had crops, was surprisingly small.

THE CHAIRMAN: I was told of one company in Edmonton





which had collected six per cent of its total Alberta investments last year, that the mortgagors had paid.

MR. LEONARD: That would include principal and interest collection?

THE CHAIRMAN: I assumed it was interest, but it may have been principal and interest.

MR. LEONARD: I think it would be principal and interest.

THE CHAIRMAN: To me it was a very surprising result. I assumed at the time, it was interest, and having regard to the moratorium it was a very surprising result. The probable explanation is that it was principal and interest.

MR. LEONARD: It would include urban loans, too. A great deal depends upon the proportion as between urban loans and farm loans. Urban loans throughout western Canada are in good shape, it is when you go into farm loans that the difficulties begin.

THE CHAIRMAN: It was stressed in the Edmonton Chamber of Commerce brief as well as in other observations which I heard, that there was increased feeling--probably due to information which is being given and so forth--the view was expressed that it was less likely that good results might be secured in the future unless there was some substantial adjustment of this matter. In other words, a feeling was being cultivated, that the mortgagor was oppressed by the moneylenders and that there was no moral obligation on his part to attempt to meet his contract. This is having an effect upon the attitude of a number of borrowers. It was believed that unless some concession was made, it was not likely that the borrowers would carry out their contracts in the future, and that they would be enabled to do so by reason of the moratorium.



MR. LEONARD: There cannot be any oppression because there is no way in which a mortgagor can receive it.

THE CHAIRMAN: While there cannot be oppression, there is no reason why these people cannot believe there is oppression.

COMMISSIONER DAFOE: The people have a feeling that you are just waiting to oppress them if you get the chance.

THE CHAIRMAN: And that their only safeguard is the protection of this legislation.

MR. LEONARD: In every other province in Canada there has been possible some kind of satisfactory agreement concerning mortgage debts, and mortgage legislation, insofar as circumstances permitted. In Saskatchewan, for example, the situation was much worse than in almost any other province in this country. There was no compulsion exercised in connection with these voluntary adjustments. It was up to the client to say whether or not he wanted to accept the plan and take the adjustment which was allotted in the new agreement. His alternatives were that he could remain under the protection of the debt adjustment legislation; he could not be sued under the protection of the act or he could go to the Farmers Creditors Arrangement Board and secure a larger measure of relief. I believe I am right in saying that less than 5 per cent refused to sign this agreement. I think the number of those who signed it within a comparatively short period of time would reach 18,000. These were all adjusted on a voluntary basis. Generally speaking, there has been no difficulty in dealing with the individual man. He is a good man and the companies want him; the companies desire to help him so far as it is possible. All the man asks for is good crops and prices and a reason-



able deal; he wants to pay if he can. This is the general picture. Our difficulty in Alberta has been the impossibility of making any adjustment which would carry any sanction whatsoever. In fact, it has been rather a case of competition. If the companies did offer an adjustment which was satisfactory, the competition was towards getting more. It was on a competitive basis instead of a basis which would endeavour to work out a plan to meet the situation.

THE CHAIRMAN: I have an impression, Mr. Leonard, that the feeling entertained out there by a great many people as to the possible earnings or profits of the mortgage companies is quite different from that presented in this brief, I think you will agree with that.

MR. LEONARD: I think that is so, Mr. Chief Justice.

THE CHAIRMAN: If the people there could be satisfied as to the accuracy of these statements contained in this brief there might be less feeling than there is to-day on this question.

MR. LEONARD: I think there has probably been a lack of putting forward the case, such as has been presented here. I think that is quite true.

COMMISSIONER DAFOE: Then there is the almost universal belief that the man who holds the bond is someone who can well afford to take, what they call, his licking. This impression is universal and deep rooted, that it involves no hardship at the other end, that this man can well afford it.

MR. LEONARD: This brief has not attempted, sir, to set out the broader picture to the extent to which the companies have taken that licking in their individual or joint capacities. There are some tremendously interesting figures showing what the effect has been upon them and the extent to which it has impaired their reserves. If it is





of interest to the Commission, I would be very glad to supply information and statistics along that line.

THE CHAIRMAN: Thank you very much, Mr. Leonard,

MR. LEONARD: It certainly has not been an easy matter.

At the bottom of page 44 in the brief, reference is made to the fact that in other countries there have been different methods of dealing with the debt situation. At the top of page 45, I read: "In Canada, the effect of the legislation has been"--

THE CHAIRMAN: Mr. Leonard, would this be a correct statement? Taking into consideration the situation of the past seven years, is there a single mortgage company which has made any money in western Canada in the past 25 years?

MR. LEONARD: I think you could go back further than that. Any company which has been consistently in business since the beginning of this century, I am sure it would have a loss, if the whole period of operation were taken into consideration. You see, the utmost a company could reasonably expect to make, the net profit of a company during good times is approximately 1 per cent per annum of net business. Losses have reached to a substantial percentage into principal. The writing off of \$18,000,000 in Saskatchewan represented a large amount.

THE CHAIRMAN: I think most companies would be very much further ahead if they had not gone into western Canada at all.

MR. LEONARD: That is the general picture, Mr. Chief Justice.

There is a reference on page 45 to the United States, which I quote:



"In the United States, between 1933 and 1937, farm loans were made by federal agencies to an amount of \$2,100,000,000, of which over \$1,800,000,000 went for the purpose of refinancing existing mortgages and other debts of the farmers."

I will skip the next paragraph and read the one following. I quote:

"We are not suggesting that Canada should have done what United States did. We do feel that more could have been done by our federal and provincial governments in spreading the burden of debt relief throughout the community as a whole, or at any rate in framing their legislation with more regard to the interests of creditors as well as debtors.

The loaning institutions have obligations of their own to a multitude of small investors, and these obligations they have performed to the letter. By so doing they have protected the savings of the people and have earned a high reputation that is in itself an asset of the greatest value to the people of Canada and to those governments and public bodies whose own credit standing, both here and abroad, depends in large measure on the continued faith of individual investors in the strength of our financial structure and institutions."

THE CHAIRMAN: Mr. Leonard, during the past seven or eight years, during the period of depression, while there have been tremendous losses in the United States by depositors and other parties interested in banks, lending companies, trust companies, and insurance companies, is there any case in Canada, during that period,



where any depositor has lost money?

MR. LEONARD: Not of which I am aware, Mr. Chief Justice, and I think that if there were I would be aware of it. There have been two or three cases in Ontario where rearrangements were made with full protection.

THE CHAIRMAN: Yes, but in all cases, the public was protected. The depositors have been protected and there is no case in Canada, as I understand it, where any loss occurred during those years. No person who has deposited money with any of these companies has lost a dollar, is that not so?

MR. LEONARD: That is quite true, sir.

THE CHAIRMAN: And no life insurance company has failed to make good its contract?

MR. LEONARD: That is true, Mr. Chief Justice.

THE CHAIRMAN: It is a very remarkable contrast to the situation in the United States during that same period, although the government did come to the relief of financial organizations in a very remarkable manner.

MR. LEONARD: Yes, the government did, sir.

At the bottom of page 45, I continue to read from the brief:

"Nevertheless, the lending companies fear that the value of their contribution has not always been appreciated, nor the extent to which the continuation of the present unfortunate situation would increase their difficulties."

Then following, on pages 46 and 47 are some references to the effect that it is unprofitable for the companies to acquire property, that is, if the company is in the mortgage business. The figures at the top of page 47 show the loss of one company in a specified deal.

I continue to quote from the brief commencing with the





second paragraph on page 47. I quote:

"Where a man is honest and efficient, then, even if bad times force him to default, a company wants to encourage him to stay on the farm. It is in their interest to do so rather than to have to take it over and try to find another owner who will be as good.

On the other hand, foreclosures occur in other cases, as we have indicated, because of inefficient farming, bad faith, abandonment. If the result of a foreclosure is that a farm that is being badly operated, weedy, drifting, unproductive, is sold to an efficient farmer and is thereby restored to fertility, then that is a distinct advantage to the community as a whole.

In our opinion there has been too much emphasis placed, in debt adjustment legislation, on protecting a debtor merely because he was a debtor, without any regard for the broader interests involved. It is desirable to protect the honest and efficient producers; in fact, they should be encouraged, and it will be to the advantage of western agriculture to have more lands in such hands. This consideration appears to have been overlooked in much of the debt adjustment legislation and its administration.

Our conclusion is that it is desirable that there should be a future supply of mortgage credit for western Canada at rates of interest comparable to the rest of Canada and that the attainment of such an objective will require: (1) the restoration of the position of the mortgage to the prior place it holds in other jurisdictions through the elimination of prior liens; (2) the ultimate



"elimination of debt adjustment legislation, and in the meantime its administration with regard to the interests of creditors and the community as a whole, and not merely for the benefit of the individual debtor; (3) the reduction of expense in handling mortgage transactions; and (4) generally putting a mortgage in Western Canada on a basis of par as to security and safety with a mortgage elsewhere in Canada."

There follows a reference to the statement of the Edmonton Chamber of Commerce that the excess of rates on private and public debt over those payable in older provinces is estimated at from \$5,000,000 to \$10,000,000 a year. Our brief gives you a picture of the situation. Our companies have about \$40,000,000 of Alberta mortgages. The excess interest rate over that in Ontario is .89 per cent. The excess interest, if it had been paid, would have been \$360,000 per year. Actually such interest has not been paid in fact, the real interest cost has been less than on a similar amount of debt in Ontario.

COMMISSIONER DAFOE: That is for all companies belonging to your association, and doing business in Alberta?

MR. LEONARD: That is right, Mr. Dafoc. Then reference is made to the fact that:

"Most of the head offices of lending institutions are in Eastern Canada, but the supply of funds for mortgage lending comes from all parts of Canada, so Alberta citizens, for example, are participating in gains or losses on the investments of Canadian life insurance, loan and trust companies, regardless of where the head offices are situated."



"An examination of the liabilities of Canadian loan, trust and life insurance companies reveals savings of Alberta citizens to an amount of over \$68,000,000 with such companies. In other words, residents of that province have a direct interest to the extent of over \$68,000,000 in the present investments of these institutions. In turn the companies hold mortgages in Alberta to an aggregate principal amount of \$40,000,000, and other investments, such as policy loans and bonds, which would bring the total to over \$68,000,000,

In the result, the citizens of Alberta have a direct interest in common with Canadians elsewhere in the investments of these companies in Alberta.

Summing up the situation in the three prairie provinces, we do not feel that there is any permanent economic defect in their provincial credit structure so long as good faith is maintained. There has been an extreme dislocation of the finances of the provincial governments in the last seven years due to agriculture and unemployment relief which they have not been able to cope with unaided, and their present position is one that we believe will require the assistance of the rest of Canada through the medium of the federal government to remedy so as to preserve the strength of our national system."

Section H deals with unemployment relief. I quote:

"The major cause of provincial and municipal financial difficulties has been the extraordinary expenditure necessary since 1929 for unemployment and agricultural relief. As this is not a permanent condition, it is our suggestion that this subject





"has to be dealt with as a problem by itself and that any other measures respecting Dominion-provincial financial relationships can hardly be determined until the future method of administering unemployment relief is determined.

The subject of unemployment is so vast a one and so difficult that it has required the intensive study of a special commission over a period of several years. For the purposes of this submission we are proceeding on the assumption that a solution to the problem of future unemployment and relief will be developed, either along the lines recommended by the Purvis Commission or by some other method which will accomplish the purpose aimed at by their recommendation, namely, a planning to take care of future periods of abnormal unemployment.

Without considering for the moment the Commission's recommendations as to the relative financial and administrative responsibilities of the various governments, we do desire to call attention to certain statements in the Report which are relevant to our submission.

To quote from page 20 of the Final Report:  
 'The Commission believes that by persistent and intelligent development of the material and human resources of Canada, the standards of living and the economic security of all groups of citizens can be continuously improved. Indeed, added to past experience, the strength of the recovery in Canadian business in recent years already provides ample evidence of the possibilities in this direction.

'The Commission also believes in the practica-



"ability of accelerating the rate at which savings are invested in productive private enterprise, thus relieving the government of the burden of aid expenditures through the re-employment impetus so provided. With the opportunities available in Canada, embracing vast natural resources along with a virile people, the maintenance of a background conducive to such private investment becomes all important."

"In subscribing to that statement, we reiterate our submission that this development of our resources through the investment of savings can only be accomplished when sound credit, private and public, is maintained.

There is at the present time in Canada a large volume of savings available for investment at interest rates that are now relatively low. They are held back by a lack of confidence that money loaned will be repaid according to contract. Assurance that contracts will be respected by legislation will go a long way towards restoring confidence in investment.

In particular, we believe it a sound policy to start clearing away some of the obstacles that are impeding the building of new houses and other forms of private construction. As the Purvis Commission states, the construction industry is one in which employment is still at an abnormally low level and where recovery is lagging badly all over the country.

The members of this Association have co-operated with the Dominion government under the Dominion Housing Act and loans for the construction



"of new houses and apartments have been made to an amount of over \$15,000,000. In addition, of course, many construction loans have been made and are being made by the companies apart from the Housing Act.

Two of the obstacles are matters to which we have referred--one, the legislative restrictions impairing the security of mortgages; and the other, as referred to later, the weight of taxation on real estate.

If the confidence of investors in mortgage contracts can be restored and strengthened, then the construction of new houses will in itself help to ease the tax situation. It may be too much to expect that our municipal taxation system could be changed so as to follow the English system of taxation on rental value, which has the practical result that a mortgage is a security ahead of taxes. There is much to be said for requiring a current charge such as taxes to be paid out of income and not allowing it to accumulate as a capital charge and to be realized out of the capital value of the property. Under such a system the financing of the construction of houses is greatly facilitated for both the borrower and lender. First mortgages would not have to be restricted to 60 per cent of value and losses would be greatly diminished, and housing construction and home ownership would be encouraged. Municipal taxation in Canada has been a serious cause of losses on mortgage investments and is a constant danger that requires the greatest care and attention on the part of the investor."





THE CHAIRMAN: Mr. Leonard, is there any part of Canada where taxes were collected out of income and not made a capital charge?

MR. LEONARD: I will refer that to Mr. Fortin.

MR. FORTIN: I do not think so.

THE CHAIRMAN: Is there any place in the United States where that is done? Have you any practical illustration of what you suggest here in operation now?

MR. LEONARD: Not in Canada or in the United States, but in the Old Country.

COMMISSIONER DAFOE: Does the experience of England since the war back up that; would it facilitate housing?

MR. LEONARD: Unquestionably, as a matter of fact, this factor is taken into consideration in the Housing Act. Under this Act, loans are made up to 80 per cent, as against 60 per cent in ordinary loans. One thing, essential in making an 80 per cent loan is to see that the taxes are paid. For this reason, the taxes are collected monthly by the mortgagee and form part of the total payment. In other words, in order to try and overcome the danger of loss through taxes, the mortgage company has to become a tax collector and have the taxes paid currently.

COMMISSIONER ANGUS: Is there a restriction as to the size of a municipality in which a housing loan will be made? Are there some places not eligible?

MR. LEONARD: Not that I know of, I think any place in Canada is eligible,

COMMISSIONER DAFOE: We had some complaint from some of the interior cities in British Columbia, I think Kamloops was one of them, that there were no parties to which a person could apply for help.

MR. LEONARD: That may be so; insofar as institutions



are concerned they operate, as far as possible, on a strictly business basis. Loans are made with the intention that they will be repaid. Most companies have a branch or some convenient agent or officer in most districts. However, there may be districts which are not covered. I am not familiar with the situation in British Columbia although I know there have been a great many loans made in British Columbia. Ontario is thoroughly covered. Under the regulations laid down in connection with these loans, rigid inspections are required. These are building loans and sound construction is necessary. The property must be inspected during the course of construction and naturally you cannot have architects or chief inspectors in every part of the country.

Section I deals with federal assistance to the provinces. The first part of this is of a historical nature and is quite familiar to the Commission. At the bottom of page 52, I read the following:

"Whatever may have been the reasons vouchsafed for the acquiescence of the Dominion in giving further grants, in the light of history it is a fair statement to make that the real reason was financial or political expediency. Difficult though it is to find a satisfactory solution to the problem we are facing, yet one conclusion seems inescapable and that is that to continue the methods of the past is no solution at all.

The test of any attempt at solution is how far it will prevent the recurrence in the future of the difficulties of the past. In the report of the McMillan Committee in England on Finance and Industry it is stated--



"No financial system, however devised, can work miracles, nor can it cope with all the problems which must be presented to it by an unsound national policy, whether internal or external. The financier is not to blame if the politician sets him problems which no financial expedients can solve." <sup>f</sup><sub>g</sub>

"Even apart from the political dangers to any financial system, it seems an inevitable conclusion that no permanent adjustment to an even balance can be made between the two governing jurisdictions in a federation by any allocation of revenues and responsibilities. Revenues from one source will decrease, while others increase. Similar variations will take place in costs of governmental services. The problem is not static, it is dynamic.

If a 'final' settlement took place to-day by a reallocation of revenues and responsibilities so that federal and provincial budgets were all put in balance, and then left to carry on as in the past, is there any reason to believe that the history of the past would not be duplicated in the future? To the extent reallocation to-day helps one part of our system, it does so at the expense of another part, and yet we cannot tell where the strain will come in the future. Depletion of existing mines and natural resources, development of new ones, changes in markets, air transportation, new industries, all these and many other factors may cause marked changes in the relative financial position of provinces.

In 1937, in response to an invitation from the Premiers of Manitoba, Saskatchewan, Alberta and the Minister of Finance of the Dominion Government,





"the Bank of Canada made an examination of the financial positions of those provinces, and as a result of its investigations and recommendations, temporary financial aid was rendered by the Dominion government by means of special grants to Saskatchewan of \$3,500,000 and to Manitoba of \$750,000. In the case of Saskatchewan the recommendation was to the effect that the province itself should also make a contribution towards additional funds for current requirements and it has since imposed a sales tax which is yielding a substantial revenue.

The examination of the Bank of Canada was not a detailed study of all departmental expenditures and revenue but a broad general survey of the provinces' positions and of the factors which were responsible for their situation.

In the light of the numerous revisions of subsidies in the past and of those provincial difficulties now existing, it seems to us to be desirable that further applications for federal assistance should be dealt with through a development of the method used by the Bank of Canada,

To give such applications a more detailed and continuing study, as well as for other reasons, it would appear preferable to have them considered by a specially appointed body rather than by the Bank of Canada, although the reports of the latter constitute an admirable basis for analyzing any provincial financial situation, and a desirable precedent for requiring the imposition of some terms, if Dominion assistance is to be extended.



"There is truth and force in the statement that the transfer by one government of any of its revenue derived from taxation, to another government for the latter to expend on its own behalf, opens the door to vicious practices. On the other hand it is a defect in a federal system if the central government cannot strengthen its weaker parts so that national unity and development can proceed to satisfactory attainment. The reconciliation of these two principles lies in the avoidance of abuses by proper control over the amount of assistance, the conditions attached to it, and the expenditure of it. We believe that such safeguards are capable of achievement.

Our suggestion is that it is desirable to have the Dominion appoint a Commission of a continuing character to which it would refer applications by provinces for assistance and which would consider such applications and which would, in turn, make its recommendations to the federal government.

Such a Commission should be non-partisan, non-political, and of a judicial character operating in an economic field. In order that it might consider applications in the light of all the interests involved including those of the Dominion and non-applicant provinces and with all possible data, we believe that such a Commission should be permanent to the extent that its members should be expected to devote their full time to the Commission so long as there are applications for grants and that it should have a full-time secretariat. If the Commission proved reasonably successful in its



"task, it should thereby terminate the need for its continuance on a full-time basis, but it may take several years to accomplish that result.

The success or failure of such a Commission will depend upon the principles laid down for its recommendations and the effectiveness of the necessary controls over the terms of the assistance. We submit that it would be fatal to the success of such a Commission if it were to endeavour to recommend federal assistance on the basis of provincial disabilities resulting from federal policies. We shall not elaborate on the reasons for that submission, which we believe will be apparent to anyone who has studied the history of Canada and other federal systems.

The term 'fiscal need' has been widely used to describe a basis for federal assistance to states or provinces. It is an expression capable of great divergence of interpretation, and on that account we do not use it. We do not suggest that there are certain principles which should govern such a Commission in making its recommendations. In the first place, it should be the desideratum of all Canadians that no section of our country should be lacking in certain minimum essentials of livelihood that depend largely upon governmental action. We refer for example to the care of the poor and of those who are unable to look after themselves when sick or aged; and similarly there are certain minimum educational opportunities which Canadian citizens should have. We do not believe that the conditions of the citizens of Canada can be equalized as between provinces any more than





"such a result can be accomplished within a province, but it should be an objective to remove the greater discrepancies by assisting those who are at the greatest disadvantage.

As credit is so fundamental in improving the material prosperity of a community, we believe that a further principle which should govern the recommendations of such a Commission would be the desirability of maintaining the credit of a province.

We cannot visualize how any province can maintain for any long period of time its other essential services of government unless it also retains its credit. Without ability to undertake necessary capital expenditures for hospitals, sanatoria, schools, roads, etc., while it may temporarily take care of immediate requirements, yet it will become progressively less able to do so.

Therefore, we believe that the objective of the Commission should be to maintain the minimum essentials of government including the maintenance of credit.

While the functioning of such a Commission might be broadly analagous to that of the Australian Grants Commission, there are differences in our problems, in our constitutional system, and in our economy, that would have to be taken into account and which would probably require some variation from their basis for recommendations. There are, however, some of their principles that would be equally applicable in Canada.

In Australia, applications for federal financial aid to states prior to the creation of the Grants Commission were largely based on political motivation



"or alleged disabilities and local injury because of membership in the federation. The Australian Commission has kept clear of political aspects affecting grants, and, after canvassing very fully the basis of disability or injury, has rejected it completely. They summed up their conclusion by stating that "the measurement of the total net effects of federation is clearly an impossible task."

"In effect, the recommendations of the Australian Commission are based upon the actual financial position of the states as disclosed from an exhaustive study of their budgetary position. It did not escape the Commission that to give no thought to certain causes of financial difficulties would put a premium upon inefficiency and extravagance. The Commission's standards to measure both necessity and effort are of such a character that evidences of bad finance would rule out or materially reduce any claim for special aid.

The Commission has not endeavoured to bring budgets into immediate balance by its recommendations. It is a reasonable inference that in Canada grants would not necessarily have to balance budgets, as deficits could be financed as long as a more effective system of finance was being put into operation."

COMMISSIONER AMOS: I imagine it is true, Mr. Leonard, that while the Australian commission did not pay damages for the effect of national policy, it did sometimes allow states to include in their claim the fact that the state was carrying out a policy in which the federal government was interested. For instance,



the settlement of the western part of Australia?

MR. LEONARD: I think the soldiers settlement was one of the factors which the commission took into consideration. I assume that is more along the line of considering certain specific aspects of governmental services were federal in nature.

COMMISSIONER DAFOE: The commission did not expressly state that the disability had arisen through federal policy. If there are such disabilities the commission does recognize and include in their factors the conditions which might be a result of federal policy. because the commission deals with the actual situation of the state and all the causes which create that situation are contributing factors even though they may not be mentioned.

MR. LEONARD: In that sense, yes, just the same as there are other factors in respect of national resources. You might say that it all comes out in the wash. There may be other important factors such as the tariff to be considered, but in the last analysis it comes down to, what is the condition of the state to-day.

We have not called it a grants commission because we believe that such a commission would have to operate in Canada on different principles. The resemblance is rather in the fact that it deals with such grants on a year to year basis as distinct from the commissions which we have had heretofore in Canada, which deal with this question, shall we say, spasmodically. We have introduced, in the last few years, probably some new features with regard to grants from the federal government to the provinces. Grants have been made, in reality to keep the province from defaulting. This established a precedent that seems desirable, now, to





control. The idea of a standing commission, operating on a year to year basis, in an endeavour to balance budgets and assist the provinces in working out their difficulties is merely a suggestion which is contained in its advisory capacity.

THE CHAIRMAN: Well, Mr. Leonard, it is now 4.30, so we will hear you further to-morrow morning at 10.30.

(The Commission rose at 4.30 p.m., on Tuesday, April 26, 1938.)













**University of Toronto  
Library**

---

**DO NOT  
REMOVE  
THE  
CARD  
FROM  
THIS  
POCKET**

---

Acme Library Card Pocket  
**LOWE-MARTIN CO. LIMITED**



